

# LOS ANGELES COUNTY ASSESSMENT PRACTICES SURVEY

**MAY 2008**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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May 7, 2008

TO COUNTY ASSESSORS:

No. 2008/030

LOS ANGELES COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the Los Angeles County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (Board) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the Board shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Rick Auerbach, Los Angeles County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Los Angeles County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from March through August 2006. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Auerbach and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:ps  
Enclosure

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## **INTRODUCTION**

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum funding level, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board's findings in its current survey of the Los Angeles County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, the Senate and Assembly; and to the Los Angeles County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Rick Auerbach, Los Angeles County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code<sup>1</sup> section 75.60, the Board determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Los Angeles County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Los Angeles County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2005 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

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<sup>1</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

## **EXECUTIVE SUMMARY**

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

The assessor has made a number of improvements to his operations over the last five years. These include allowing electronic filing of business property statements, placing a number of assessment resources online for staff to use, creating programs for tracking changes in ownership, major exemption claims through use of bar coding, and building permits, and participating in the standard data record program with other assessors, which allows retrieval of data from participating taxpayers.

In our 2002 Los Angeles County Assessment Practices Survey, we made 39 recommendations to address problems with the assessor's policies and procedures. The assessor fully implemented 23 of the recommended changes. Four recommendations no longer apply because of law changes or a change in Board guidance. The remaining recommendations that were not implemented, or implemented only in part, are repeated in this report.

In the area of administration, we found most programs to be effective. The assessor's programs for assessment appeals and training are well managed. Improvements have been made to the disaster relief and exemptions programs. However, we found that notifications to the tax collector for administration of the racehorse tax needs improvement.

In the area of real property assessment, the assessor has effective programs for the enrollment of leasehold improvements and mineral properties. The assessor's transfer document system has been recently upgraded from a batch system to an automated paperless system. A supplemental tax estimator program is available on the assessor's website to assist the public in estimating and understanding supplemental assessments.

Areas within other programs, however, need improvement. For example, document processing should be uniform among the assessor's district offices. The assessor should apply penalties for failure to file a change of ownership statement within the time prescribed by section 482. He should also obtain building permits from all issuing agencies and enroll construction in progress at its fair market value on each lien date. As to taxable possessory interests, the assessor should issue supplemental assessments and properly value property held by redevelopment agencies.

We reviewed records from five of the seven district offices and found the assessor has effective programs for auditing records pertaining to business and personal property; for discovery of leased equipment; and for discovery and valuation of aircraft, vessels, and animals. However, we found that uncertified staff are processing business property statements; there are no estimates or assessments made for supplies when taxpayers fail to report supplies on their business property statements; and historical aircraft exemptions are being incorrectly granted. Moreover, the processing of changes in ownership of certain types of manufactured housing needs improvement, and there are minor problems with the assessment of vessels and animals.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

The Los Angeles County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2005-06 assessment roll indicates an average assessment ratio of 99.67 percent, and the sum of the absolute differences from the required assessment level is 0.94 percent. Accordingly, the Board certifies that Los Angeles County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

Following is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

**RECOMMENDATION 1:** Provide a copy of the record of those racehorse owners receiving the annual racehorse forms to the tax collector. ....20

**RECOMMENDATION 2:** Maintain uniformity in document processing.....22

**RECOMMENDATION 3:** Apply penalties for failure to file *Change of Ownership Statements* within the time prescribed by section 482.....24

**RECOMMENDATION 4:** Include the names of the transferors and the transfer dates on the transfer list as required by section 408.1. ....25

**RECOMMENDATION 5:** Improve the assessment of new construction by: (1) obtaining all building permits from permit-issuing agencies, and (2) enrolling construction in progress at its fair market value on each lien date. ....27

**RECOMMENDATION 6:** Improve the inventory system for taxable government-owned properties. ....31

**RECOMMENDATION 7:** Revise the taxable possessory interest program by: (1) issuing supplemental assessments upon all changes in ownership of taxable possessory interests, and (2) properly valuing taxable possessory interests in property owned by redevelopment agencies. ....32

**RECOMMENDATION 8:** Value property owned by mutual water companies at a minimum value when those property values are included in the land they serve. ....37

**RECOMMENDATION 9:** Require certified appraiser review of property statements processed by clerical staff.....43

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- RECOMMENDATION 11:** Improve the assessment of manufactured homes by:  
(1) valuing interests in resident-owned mobilehome parks using the residual approach, and (2) issuing supplemental assessments for all reassessable manufactured home events.....47
- RECOMMENDATION 12:** Revise the program for exempting historical aircraft by:  
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(2) ceasing to grant the exemption to taxpayers who file their exemption after August 1; and (3) ensuring that taxpayers use the current affidavit to claim an exemption. ....49
- RECOMMENDATION 13:** Improve the assessment of vessels by: (1) requiring a current certificate of inspection for certain documented vessels, and (2) applying the 10 percent penalty for failure to file the vessel property statement as required by section 463. ...51
- RECOMMENDATION 14:** Enhance the assessment of animals by: (1) identifying and assessing all taxable animals, and (2) sending the *Annual Report of Boarded Racehorses* form to operators of horse stables. ....52

## RESULTS OF 2002 SURVEY

### ***Disaster Relief***

We recommended the assessor: (1) accept all qualifying claims regardless of the timeliness of the filing, (2) obtain reports from all fire departments, and (3) properly allocate value between land and improvements. The assessor fully implemented all three of these recommendations.

### ***Assessment Roll Changes***

We recommended the assessor develop a management report summarizing roll changes so that he can determine the quality of appraisal and audit work. During our current review, we found that the assessor still has not developed this type of report. However, our current review did not find any problems caused by this omission.

### ***Exemptions***

We recommended the assessor: (1) send religious exemption claim forms to churches when they first file exemption claims for their schools, and (2) penalize taxpayers for the late filing of homeowners' exemption terminations.

The assessor has implemented the first recommendation. Concerning the second recommendation, we found no evidence where a claimant erroneously claimed a homeowners' exemption. Therefore, we will not repeat these recommendations.

### ***Change in Ownership***

We recommended the assessor: (1) apply penalties for failure to file a *Change of Ownership Statement* as prescribed by section 482, and (2) revise procedures for processing long-term leases of manufactured home sites.

In our current review, we found that the assessor fully implemented the second recommendation. However, the assessor still fails to apply section 482 penalties when taxpayers fail to file a *Change of Ownership Statement*; thus, we repeat this recommendation.

### ***New Construction***

We recommended the assessor use only certified appraisers to value new construction. The assessor has implemented this recommendation.

We recommended the assessor update the *Claim for Seismic Safety Construction Exclusion From Assessment* form. The assessor is now using the current updated form.

We recommended the assessor record in his property records information from all building permits. While maintaining a detailed history of improvements to a property may be beneficial to the appraisal staff when making appraisal judgments, we did not discover any taxable new

construction that escaped assessment due to this omission. As a result, we are not repeating this recommendation.

We recommended the assessor obtain all permits from permit-issuing agencies. The assessor is still not obtaining all permits. Therefore, we are repeating this recommendation.

We recommended the assessor obtain final inspection dates and certificate-of-occupancy dates from permit-issuing agencies. We did not discover problems related to the assessor's use of estimated completion dates; thus, we are not repeating this recommendation.

We recommended the assessor revise his new construction assessment procedures to ensure consistency within his office. We did not find any problems and are no longer making this recommendation.

### ***Supplemental Assessments***

We recommended the assessor's office notify the county auditor-controller's office of pending supplemental assessments as required by section 75.30. This requirement was repealed effective January 1, 2004. Therefore, this recommendation no longer applies.

### ***Taxable Government-Owned Properties***

We recommended improved documentation for taxable government-owned properties. We are re-wording this recommendation to properly reflect problems with the identification of taxable government-owned properties.

### ***Taxable Possessory Interests***

We recommended the assessor: (1) properly assess taxable possessory interests located on taxable government-owned lands, (2) review all contracts with the California Pollution Control Financing Authority, and (3) improve record control and revise procedures for processing taxable possessory interest assessments.

The assessor has improved his taxable possessory interest procedures and implemented all recommendations.

### ***Refineries***

We recommended the assessor segregate land and improvements from fixtures and machinery when valuing refineries. Due to a change in regulatory guidelines, we will not repeat this recommendation.

### ***Restricted Historical Properties***

For restricted historical properties, we recommended the assessor: (1) consider the market value, (2) correctly calculate the base year value, and (3) implement consistent assessment procedures among district offices. The assessor has improved his restricted historical property procedures and implemented all recommendations.

### ***Water Company Properties***

We recommended the assessor value property owned by mutual water companies at a minimal value when property values are reflected in the land that they serve. The assessor has not revised his procedures. Therefore, we are repeating this recommendation.

### ***Mineral Properties***

For mineral properties, we recommended the assessor: (1) account for working capital in the cash flow analysis; (2) compare the value of appraisal units when determining declines in value of mineral property; (3) use the current market value of land when determining the market value of mineral rights under the residual method; and (4) value petroleum products at fair market value rather than by the Memorandum of Understanding (MOU) method.

The assessor has implemented all recommendations regarding mineral properties.

### ***Audits***

We recommended the assessor physically inspect the facilities of large businesses as part of his audits. The assessor has implemented this practice.

### ***Business Equipment***

We recommended the assessor discontinue the use of arbitrary minimum percent good factors. The assessor has complied with our recommendation and is now using the factors provided by the California Assessors' Association (CAA).

We recommended the assessor use Board-recommended valuation factors for biopharmaceutical equipment. The assessor is now using the recommended factors.

### ***Manufactured Homes***

We recommended the assessor classify manufactured homes placed on permanent foundations as real property. The assessor has implemented this recommendation.

We recommended the assessor treat share transfers in mobilehome park cooperatives as reassessable changes in ownership. The assessor has complied with this recommendation.

We recommended the assessor value resident's interests in mobilehome parks using the residual approach. The assessor has not changed his practices. Therefore, we are repeating this recommendation.

We recommended the assessor issue supplemental assessments for each change in ownership of an interest in a resident-owned mobilehome park. The assessor has not changed his practice. Thus, we are repeating this recommendation.

We recommended the assessor issue supplemental assessments for all reassessable manufactured home events. The assessor has not implemented this recommendation, and therefore we repeat it.

***Aircraft***

We recommended the assessor revise his *Aircraft Ownership Verification* form to comply with sections 5365 and 5367. This form has been revised and now conforms to the requirements of sections 5365 and 5367.

***Vessels***

We recommended the assessor inspect business-owned aircraft and vessels that meet the mandatory audit threshold. The assessor has implemented this recommendation.

## OVERVIEW OF LOS ANGELES COUNTY

Established on February 18, 1850, the County of Los Angeles is one of the original 27 counties in the State of California. The County of Los Angeles encompasses an area of 4,084 square miles of diverse geography, with 75 miles of coastline, representing nearly 9 percent of California's 840 mile coastline. With a total population of 10,223,055 (July 2005), Los Angeles County is the largest county in the nation; its population is exceeded only by eight states. Approximately 28 percent of California residents live in the 88 cities and unincorporated areas of Los Angeles County.

The Los Angeles County Assessor manages over 2.6 million assessments. His 2005-06 assessment roll reached an all-time record of \$855.8 billion. The net local roll, after exemptions and excluding utilities assessed by the Board, totaled \$823.7 billion -- a 10 percent increase over the prior year. Much of the growth in assessed value can be attributed to increasing housing prices. Changes in ownership, requiring reassessment, added \$54 billion to the roll. An additional \$14 billion was added by mandated consumer price index adjustments. Assessed new construction contributed an additional \$5.6 billion to the 2005-06 assessment roll.

The following table presents information pertinent to the 2005-06 assessment roll as presented in the Los Angeles County 2005 Annual Report:

	<b>PROPERTY TYPE</b>	<b>ASSESSMENTS</b>	<b>ENROLLED VALUE</b>
<b>Secured Roll</b>	Residential	2,051,648	\$585,881,813,941
	Commercial/Industrial	252,455	\$206,095,621,884
	Rural	51,818	\$2,470,288,974
	Manufactured Homes	22,534	\$641,377,046
	<b>Total Secured</b>	<b>2,378,455</b>	<b>\$795,089,101,845</b>
<b>Unsecured Roll</b>	Personal Property & Fixtures	296,267	\$60,715,890,443
	<b>Total Assessment Roll</b>	<b>2,674,722</b>	<b>\$855,804,992,288</b>

The next table illustrates the growth in net assessed values for recent years as reported in the Board's annual reports:

<b>ROLL YEARS</b>	<b>TOTAL ROLL VALUE</b>	<b>INCREASE</b>	<b>STATEWIDE INCREASE</b>
2005-06	\$831,949,236,000	9.8%	11.1 %
2004-05	\$757,352,187,000	7.6%	8.3 %
2003-04	\$703,818,100,000	7.4%	7.3 %
2002-03	\$655,139,601,000	6.1%	7.3 %
2001-02	\$617,338,667,000	N/A	N/A

## ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, assessment appeals, disaster relief, assessment roll changes, exemptions, and the racehorse administrative tax.

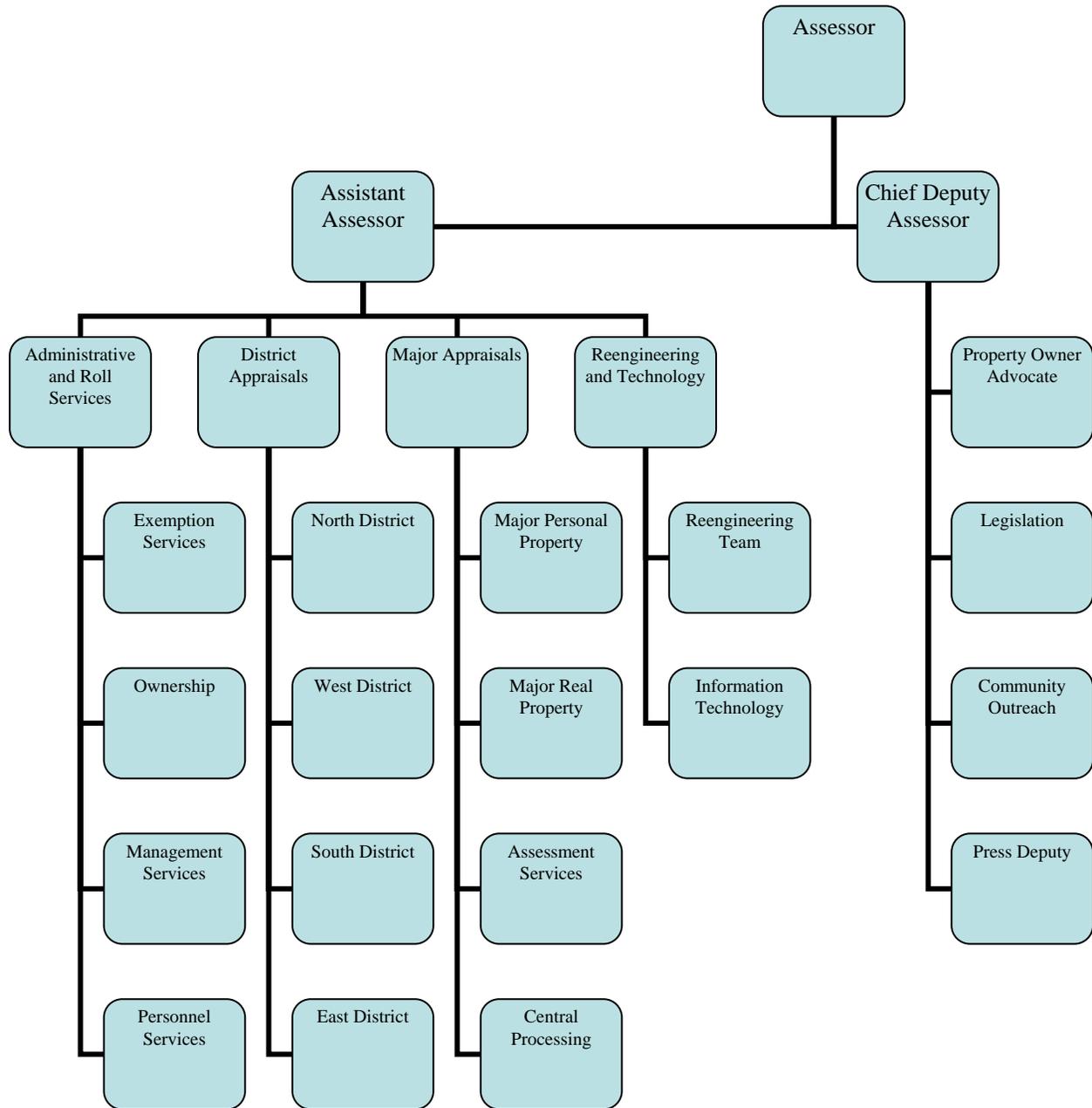
### ***Budget and Staffing***

At the time of our survey, the assessor's salary budget was \$77,194,000, with an additional budgeted cost of \$35,965,000 for employee benefits. The combined budget for salary and benefits, \$113,159,000, represented more than 79 percent of the total operating costs of the assessor's office. The following table shows the percentage increase in the assessor's budget over recent years:

BUDGET YEAR	BUDGET	PERCENT INCREASE
2005-06	\$142,335,000	7.7%
2004-05	\$132,199,000	2.5%
2003-04	\$128,964,000	2.1%
2002-03	\$126,255,000	5.7%
2001-02	\$119,500,000	N/A

The Los Angeles County Assessor has the largest assessor's staff in the state, with 1,502 permanent positions for the 2005-06 assessment year. The assessor has 60 managers, 380 certified real property appraisers, and 176 certified business property appraisers. There are 693 clerical positions, 39 mapping employees, and 153 technical employees.

The following is an organizational chart for the Los Angeles County Assessor's Office for 2005:



**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are a total of 569 certified appraisers on staff, including the assessor; 476 hold advanced certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

The assessor's training unit of the Major Appraisals Subdepartment coordinates and monitors training and certification for the assessor's personnel. The training staff conducts a formal one-year in-house training program for appraisal recruits, encompassing all the elements necessary to become certified for property tax appraisal. The trainees are encouraged to obtain their advanced appraisal certificates and other professional designations, which often qualify them for a monthly cash incentive offered by the assessor.

### ***Assessment Appeals***

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

Los Angeles County has five full-time assessment appeals boards consisting of three board members each and four alternates. Nominated by the board of supervisors, each member serves a three-year term. Applicants may also request a hearing before an assessment hearing officer. Hearing officers hear appeals for single-family residences, multi-residential properties up to four units, and commercial properties that do not exceed \$3 million. The board members conduct hearings at the Hall of Administration; hearing officers conduct proceedings at district offices located within the county.

Applications are filed with the assessment appeals board, which confirms that each application is complete and timely filed. Copies of the applications are sent to the assessor, whose clerical staff maintains a tracking system for each appeal. Hearings are scheduled, and supervising appraisers assign cases to individual appraisers. Once an appraiser has prepared a case, a principal appraiser reviews the case and presents it at the scheduled hearing.

The following table illustrates the appeal workload for recent years:

APPEALS	FISCAL YEAR				
	2005-06	2004-05	2003-04	2002-03	2001-02
<b>Total Appeals:</b>					
Applications Received	11,807	15,778	17,840	20,051	19,417
Carried Over	12,476	17,720	15,760	16,628	18,532
<b>Total</b>	<b>24,283</b>	<b>33,498</b>	<b>33,600</b>	<b>36,679</b>	<b>37,949</b>
<b>Resolutions:</b>					
Hearing-reduced	N/A	5,183	3,080	4,830	4,933
Hearing-increased	N/A	95	99	52	36
Hearing-upheld	N/A	1,047	1,314	1,250	1,324
Stipulation	N/A	192	350	273	580
Withdrawn	N/A	11,365	8,068	9,942	10,664
Other Determination*	N/A	3,140	2,969	4,572	3,784
<b>Total</b>		<b>21,022</b>	<b>15,880</b>	<b>20,919</b>	<b>21,321</b>
<b>Carried over to next year</b>		<b>12,476</b>	<b>17,720</b>	<b>15,760</b>	<b>16,628</b>

\*Note: Includes late file appeals, applicants' failure to appear, and board-denied applications.

We reviewed several appeal files and found them well documented and organized. The assessment appeals board and the assessor work closely together to ensure that appeals are heard timely.

We found no problems with the assessor's assessment appeals program.

### ***Disaster Relief***

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment or re-value the property on his own accord on the lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Los Angeles County Board of Supervisors adopted a disaster relief ordinance in 1996 (No. 0049) and revised it in 2005 (No. 0017). The revised ordinance grants the assessor the authority to initiate a reassessment without an application where the assessor determines that within the preceding 12 months taxable property was damaged or destroyed.

With this authority, the assessor has taken a proactive stance, initiating reassessment upon discovery of damaged property and notifying the taxpayer of the proposed reassessment. If the taxpayer needs to file an application, forms are available on the assessor's website and at the public counter of the assessor's office.

Each appraiser is responsible for handling claims within his or her assigned geographic area. The assessor's staff determines separately the full cash value of the land, improvements, and personal property immediately before and after the damage. The property tax relief is based on the percentage reductions in value due to the damage or destruction.

The assessor discovers instances of damage or destruction through building permits issued for repairs, newspaper articles, taxpayer notification, and field investigation. The assessor also receives quarterly reports from the Los Angeles County Fire Department. In our 2002 survey, we recommended the assessor obtain fire reports from all fire departments located within incorporated cities in the county. The assessor is in contact with all fire departments within the county and has improved his efforts to obtain fire reports from them.

We reviewed numerous records of properties that had suffered damage or destruction. The assessor promptly sent applications for disaster relief to property owners who requested them, handled each case properly, and processed mid-year tax relief for the property owners. We found that the assessor noted the disaster information on the records, properly calculated the value reduction, and appropriately lowered the assessed values of these properties.

### ***Assessment Roll Changes***

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of the unpaid taxes requires the consent of the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes processed for recent years:

CALENDAR YEAR	ROLL CORRECTIONS
2004	118,520
2003	117,244
2002	98,455
2001	91,675
2000	87,217

All corrections processed in a calendar year, regardless of the roll year, are reflected in that year's total count. Roll corrections include changes (increases or decreases) in the value of real property, personal property, including fixtures, and exemptions.

Only certified property appraisers can initiate roll changes; a supervising property appraiser must review and approve each change. A principal's approval is necessary when the roll change results in a change in value greater than \$2,000,000.

After a roll change has been approved, it is reviewed by two different clerks for quality control and given to data entry clerks for input. Roll changes are transmitted electronically to the main Los Angeles office. The *Notice of Assessed Value Change* or *Notice of Proposed Escape Assessment* letters are automatically generated and sent to the taxpayers. These notices clearly display all the required information.

We reviewed a number of secured and unsecured roll changes. Overall, the assessor's roll change system appears to be operating effectively.

### ***Low-Value Property Tax Exemption***

Section 155.20 authorizes a county board of supervisors to exempt from taxation all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors may not exempt from taxation property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain taxable possessory interests. The board of supervisors must adopt a low-value property tax exemption ordinance before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

On February 21, 1989, the Los Angeles County Board of Supervisors adopted a resolution that exempted from taxation all real property and personal property with a full value of \$2,000 or less. The county has not adopted a resolution exempting from taxation low-value supplemental assessments or low-value escape assessments as permitted by sections 75.55 and 531.9.

Our review of the property eligible for this exemption included real property (including taxable possessory interests) and personal property. For the 2004-05 assessment roll, the assessor exempted from taxation approximately 159,000 real property parcels and business accounts with a total value of nearly \$32,000,000. Each property reviewed was properly valued, enrolled, and then exempted. We found no problems with the assessor's administration of the low-value property tax exemption.

## **Exemptions**

### **Church and Religious Exemptions**

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

For the 2005-06 assessment roll, the Los Angeles County Assessor processed 586 church exemptions and 5,675 religious exemption claims.<sup>2</sup>

Our review of Los Angeles County's religious exemption program showed that the assessor adheres closely to statutory filing requirements. First-time claimants for the religious exemption correctly file Form BOE-267-S, *Religious Exemption Claim*. Once the religious exemption is established for a claimant, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, to ensure that the claimant still qualifies for the exemption. If a claimant fails to return Form BOE-267-SNT, the assessor attempts to contact the claimant to determine whether the religious exemption should be allowed, or if it should be adjusted. We found the assessor's religious exemption program to be well-documented and properly administered.

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<sup>2</sup> Information was obtained from Form BOE-802.

As required by sections 255 and 256, the assessor properly requires claimants for the church exemption to annually file Form BOE-264-AH, *Church Exemption Claim Form*. When applicable, the exemption is limited for late-filed claims (after February 15 of each year) to 85 or 90 percent (\$250 maximum). As with the religious exemption program, we found that the assessor's church exemption program to be well-documented and properly administered.

### Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the Board and county assessors. The Board is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* (OCCs) to qualified nonprofit organizations. Additionally, the assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's OCC issued by the Board.

The Los Angeles County assessor processed 10,094 welfare exemption claims for the 2005-06 assessment roll.

In order to judge the effectiveness of the assessor's welfare exemption program, we reviewed a variety of welfare exemption claims on file at the assessor's office, involving such uses as low-income housing and hospitals, reasonably necessary staff housing, parsonages, churches, and religious schools. We found that a certified appraiser visits first-time claimants to verify eligibility for the exemption and that a permanent file is maintained for each organization. We also found that the property uses were within the scope of the exemption.

### Homeowners' Exemption

An exemption of the first \$7,000 in assessed value is available to an eligible owner for a dwelling that is occupied as the owner's principal place of residence as of January 1 of each year. The Los Angeles County Assessor granted homeowners' exemptions with a total exempt value of \$8,037,208,227 for the January 1, 2005 lien date. Unlike other exemptions, the state reimburses local governments for the tax revenue lost due to this exemption. We have no recommendations concerning this exemption.

### **Racehorse Administrative Tax**

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 and 1046. Rule 1045(c)(1) requires the assessor to furnish Board-prescribed forms to racehorse owners for reporting the in-lieu tax.

Board-prescribed racehorse tax return Forms BOE-571-J1, *Annual Report of Boarded Racehorses* and BOE-571-J, *Annual Racehorse Tax Return*, are mailed to horse owners with a February 15 filing deadline, after which the tax collector imposes a 10 percent penalty under section 5767. If not paid by this time, the annual racehorse tax becomes delinquent and a six percent penalty attaches to the tax due under section 5763.

**RECOMMENDATION 1:** Provide a copy of the record of those racehorse owners receiving the annual racehorse forms to the tax collector.

The assessor maintains a record of those racehorse owners who receive the *Annual Racehorse Tax Return*. However, the assessor does not furnish the tax collector with a copy of this record as required by Rule 1045(c)(2).

Rule 1045(c)(2) requires the assessor to maintain a record of those racehorse owners who have received the *Annual Racehorse Tax Return*. The rule also requires the assessor to deliver to the tax collector a copy of this record within 10 days of the date the forms are furnished to the taxpayers. Because the assessor is not furnishing copies of this record to the tax collection, he is not complying with these requirements.

## ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts and taxable government-owned property.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, adjusted annually for inflation by a factor not to exceed 2 percent.

### ***Change in Ownership***

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership; a property's base year value is its fair market value on the date of change in ownership.

### **Document Processing**

The assessor's primary means of discovering properties that have changed ownership is review of deeds and other documents recorded with the county recorder's office. The recorder provides the assessor with electronic images of all recorded documents that may result in a reassessable change in ownership event.

In recent years, the number of documents resulting in changes in ownership has remained fairly constant. Approximately one-half of the deeds received from the recorder result in reappraisals. The following table illustrates the number of deeds processed and the number of parcels reappraised during recent years:

ROLL YEAR	DEEDS RECEIVED	PARCELS REAPPRAISED
2004-05	521,120	242,104
2003-04	550,481	243,519
2002-03	480,029	245,282
2001-02	411,618	214,443
2000-01	393,663	208,159

The assessor receives approximately 1,100 to 1,900 Form BOE-502-A, *Preliminary Change of Ownership Statements* (PCORs) on a daily basis from the recorder; the PCORs are matched with imaged documents (usually deeds) that evidence changes in ownership.

Document processing and coding is the responsibility of the Ownership Services Division in the Administrative and Roll Services Subdepartment. Clerical staff reviews deeds and accompanying PCORs to determine if the information provides evidence of reassessable events. The staff also verifies legal descriptions and current owners. As a quality control measure each document is reviewed more than once for accuracy. The "corp unit" of the Ownership Services Division is responsible for processing questionable transactions, corporate transactions, leases, and transfers involving values of \$25 million or more.

In 2005, the assessor implemented an interactive web application, the paperless transfer system (PTS) for his staff. The PTS automatically selects new reappraisable transfers from the Property Data Base (PDB) system on a weekly basis. The PTS features electronic work distribution by cluster code, an automated value processing system, and electronic supervisory approval and tracking queues.

This system is still relatively new, but it appears to expedite the assignment of reappraisable transfers, to track appraisals in a timely manner, and to minimize the use of various in-house forms that were previously used by the appraisal staff. This system also helps to reduce delays, which the assessor experienced in the past, because the work is relayed to the appraiser on a weekly basis rather than eight to ten times a year.

However, we found that the assessor does not maintain uniformity in document processing.

**RECOMMENDATION 2:** Maintain uniformity in document processing.

To better facilitate public service and to improve support to district appraisal staff, the Ownership Services Division began a decentralization of document processing from the downtown office into the district offices in 2003. We found inconsistencies between the document processing and the district offices.

If a PCOR is not received or is incomplete, the appropriate procedure is to leave the PCOR sales price box blank on the ownership processing screen. This will automatically trigger the system to send a Form BOE-502-AH, *Change of Ownership Statement (COS)*, to the taxpayer. We found one district office does not follow this procedure. Staff in this district office enter \$1 in the PCOR sales price box, which blocks the system from sending out a COS.

In addition, we found that another district office does not have access to vital records, which are valuable tools for confirming information on deaths, marriages, and births. Instead, the ownership staff contacts the downtown office for such information. This inevitably interferes with production and may lead to incorrect document processing.

The assessor should ensure that his staff knows and understands the proper procedure for processing change in ownership documents. The assessor also should provide the proper resources to all district offices so that the staff will be able to operate efficiently and effectively. By incorporating these recommendations into his program, the assessor will provide a more uniform document processing system among the district offices and downtown.

### Direct Enrollment Program

Direct enrollment is a program used in many assessors' offices for enrolling uncomplicated transfers of properties. In Los Angeles County, this program is called Automated Data System/13, which is more commonly referred to as ADS/13. The assessor's direct enrollment program is used only to enroll single-family residences and condominiums that meet specific criteria, including:

- The transfer must involve a 100 percent transfer of all property rights;
- The sale price must be over \$20,000;
- The deed must show a transfer tax based upon the full sales price; and
- The sale price must be within the range of a newly calculated cost estimate.

If all criteria are met, the sale price is automatically enrolled and updated on the PDB system. Approximately 43 percent of all transfers in Los Angeles County are directly enrolled.

### Section 63.1 Exclusions and Section 69.5 Base Year Value Transfers

Section 63.1 excludes from the definition of change in ownership the purchase or transfer of principal residences and the first \$1 million of other real property transferred between parents and their children. Under limited circumstances, the exclusion is extended to transfers from grandparents to their grandchildren.

Section 69.5 generally allows a qualified homeowner over the age of 55 or a qualified homeowner who is severely and permanently disabled to transfer the base year value of a principal residence to a qualifying replacement dwelling of equal or lesser value purchased or

newly constructed within the same county if a claim is timely filed. We found that the assessor effectively processes sections 63.1 and 69.5 claims.

### Change of Ownership Statement (COS)

Section 480 requires transferees of locally assessed real property to file a COS with the county recorder or assessor. It also provides for penalties for taxpayers who fail to file such a statement within 45 days from the date of a written request by the assessor. Most transferees meet this requirement by filing a PCOR at the time of recording a document evidencing a change in ownership, as required by sections 480.3 and 480.4.

Regardless of whether a transferee files a PCOR or not, the assessor may still require the filing of a COS. Pursuant to section 483(b), the county board of supervisors can pass a resolution authorizing the assessor to abate a section 482 penalty if the assessee files the COS with the assessor no later than 60 days after the date on which the assessee was notified of the penalty. In Los Angeles County, the board of supervisors passed such a resolution in 1984.

The assessor has comprehensive written procedures describing the automated penalty application and penalty abatement procedures. When a COS is not returned and posted within 60 days of the print date, a *Notice of Penalty Assessment* is generated, which indicates that the penalty will automatically be cancelled if the COS is completed and returned immediately to the assessor. This abatement is automatic if the COS is timely filed. Notwithstanding, we found that the assessor does not apply penalties when taxpayers fail to file a COS within the time prescribed by section 482.

**RECOMMENDATION 3:** Apply penalties for failure to file *Change of Ownership Statements* within the time prescribed by section 482.

In our 2002 survey, we recommended that the assessor apply section 482 penalties for taxpayers who do not timely file the COS after receiving the *Notice of Penalty Assessment*. We found that the assessor's computer system still allows an 80-day waiting period rather than a 60-day waiting period, contrary to the provisions of section 482.

Although the penalty abatement section of the assessor's procedures was corrected to allow a 60-day waiting period as prescribed by section 482, other sections of the assessor's procedures provide that an 80-day waiting period is acceptable. During our review, we also found that the assessor allows assessee to petition for abatement after the 60-day period has expired. Only after an 80-day waiting period has passed without a COS being processed in the PDB system will the penalty assessment record be generated and notification sent to the auditor-controller's office.

Section 482 specifies that any requests for penalty abatements must be submitted and substantiated no later than 60 days after penalty notification. Since the assessor continues to grant penalty abatements after the time prescribed by section 482, we repeat our recommendation that the assessor properly apply penalties for failures to timely file COSs.

## Section 408.1 Transfer Lists

Section 408.1(a) requires the assessor to maintain a list of transfers that have occurred within the preceding two-year period and to make the list available to the public. The list is to be divided into geographical areas and revised each quarter. The list shall contain the following information: names of the transferor and transferee (if available), assessor's parcel number, address of the transferred property, date of transfer, date of recording and recording reference number, and the consideration in money paid if known by the assessor.

The Los Angeles County Assessor's transfer list is accessible, free of charge, by microfiche at their various public counters. The list is updated quarterly, and sales price information does not come from confidential information reported on the PCOR or the COS. However, we did find a few problems with the list.

**RECOMMENDATION 4:** Include the names of the transferors and the transfer dates on the transfer list as required by section 408.1.

Although the assessor's transfer list contains the assessor's parcel number, the address of the property, the date the sale was recorded, the recording document number, and the consideration paid, it omits the name of the transferor and the transfer date.

Section 408.1(b) sets forth six specific items of information, detailed above, that must be included on the two-year transfer list. When the list omits one or more of these items, the public does not have access to all the information required to be made available to them. Therefore, we recommend that the assessor provide the information required by section 408.1 on his transfer list, including the names of the transferors and the transfer dates for each transfer.

## Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control, and hence, either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the change in entity control.

To help assessors, the Board's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide information sufficient to identify the real property that they own. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Between January 1, 2003, and December 31, 2004, the Board notified the assessor of 158 transfers of legal entities involving 1,713 properties. The Major Real Property Division discovers approximately 75 percent of the LEOP changes through review of media data and business property statements.

In 2004, the Los Angeles County Assessor's Office implemented a legal entity ownership program tracking system. This system was developed to centralize and expedite the processing and valuation of changes in control of legal entities. While this system is still in its beginning stages, it should expedite the processing of changes in control in the future.

We reviewed a number of properties on the LEOP list for Los Angeles County and found no errors pertaining to identification and change in ownership enrollment.

### ***New Construction***

Section 70 defines newly constructed property, or new construction, as: (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

### **Discovery**

Most new construction activity is discovered from building permits. The assessor identifies potentially assessable new construction primarily by reviewing copies of building permits received from each of the 73 permit-issuing agencies in the county. Many of the smaller cities in the county contract with the City of Los Angeles Department of Building and Safety for permit information.

### **Permit Processing**

The agencies that provide the assessor with permits provide them on a monthly basis. The permits, which are transmitted both electronically and in paper form, are examined by the clerks in the Ownership Services Division. Following written procedures, the clerks review the data to determine which permits are likely to represent reappraisable events and which permits should be culled because they indicate non-assessable work.

The following table shows the number of new construction permits received and the number of permits resulting in reappraisable events for recent years.

FISCAL YEAR	RECEIVED	REAPPRAISAL EVENTS
2004-05	111,023	53,074
2003-04	105,628	52,193
2002-03	93,007	44,837
2001-02	82,415	40,527
2000-01	73,808	34,879

Once the permits are determined to represent potentially reassessable events, they are entered into a database. A *Property Detail Record* (PDR) is created and a *New Construction Statement* (NCS) is sent to the property owner. This statement requests property owners to provide the costs, construction details, and a sketch of the new construction. If the NCS is not returned to the assessor within 25 days, the PDR is forwarded to the district office.

### Valuation

PDRs are matched with the appropriate NCSs and distributed to appraisers in the district offices. For small-sized new construction, the appraiser will review the costs reported by the taxpayer on the NCS. If the reported costs are between 65 and 150 percent of the costs indicated by the assessor's cost manual, the reported value is accepted and enrolled after a field check is completed. For the remaining new construction assignments, appraisers determine the value added by the new construction. The value of new construction of commercial, industrial, and special use properties is estimated using the method best suited for the type of property being valued. The Major Real Property Division values large-sized new construction projects.

We reviewed several residential and commercial parcels that involved new construction and found two areas of the program needing improvement.

**RECOMMENDATION 5:** Improve the assessment of new construction by: (1) obtaining all building permits from permit-issuing agencies, and (2) enrolling construction in progress at its fair market value on each lien date.

#### **Obtain all building permits from permit-issuing agencies.**

We contacted 14 permit-issuing agencies and found that only 4 of those agencies forwarded all permits to the assessor on a monthly basis. The remaining ten agencies screen their permits and only forward certain permits to the assessor.

Section 72(a) requires a copy of any building permit issued by any city or county to be transmitted to the county assessor as soon as possible after the date of issuance. When local agencies fail to provide the assessor with copies of all building permits, the appraisal staff is not

aware of all new construction. The likely result is that some new construction will escape assessment.

**Enroll construction in progress at its fair market value on each lien date.**

We found that the assessor does not determine the fair market value of construction in progress on each lien date as required by section 71. Instead, the assessor's computer system automatically applies the annual inflation factor to the prior roll value of construction in progress. Upon completion of the construction project, the assessor issues roll corrections for the years in which the construction was still in progress.

Section 71 provides that new construction in progress shall be enrolled on each lien date at its full value until the date of completion. Upon completion, the entire portion of the property that was newly constructed shall be reappraised at its full value. Thereafter, the entire assessment shall be subject to the annual inflation factor. It is improper to apply the inflation factor to construction in progress.

***Declines in Value***

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value.

Los Angeles County has experienced economic growth and resurgent property values since the 2001-02 roll year. These trends were evidenced by a drop in the number of parcels on the annual roll with decline-in-value assessments. Likewise, as market values rose, there was a corresponding drop in the number of requests for value reviews, and a significant restoration of dollar value to the roll.

On the 2001-02 roll, there were 265,935 parcels enrolled with declining values. By the close of the 2005-06 roll, that number had dropped by nearly 91 percent to 24,536 parcels. The following table illustrates the annual percentage decrease in the decline-in-value parcel count for recent years:

ROLL YEAR	PARCELS	PERCENT CHANGE
2005-06	24,536	-60.60%
2004-05	62,279	-59.55%
2003-04	153,955	-27.40%
2002-03	212,059	-20.26%
2001-02	265,935	N/A

Major properties account for approximately 10 percent of the current decline-in-value parcel count. The parcel count for major properties is lower than any other property type, yet represents more than 60 percent of the restorable assessed value. About 37 percent of the current decline-in-value parcels are located in economically depressed areas.

Parcels that are coded as declines-in-value are individually reviewed each year. They remain in the *Proposition 8 Cumulative Report* until their taxable values reach the factored base year value level. After the appraisers determine the values, their work is reviewed by supervisors and then returned to the Proposition 8 project coordinator to be downloaded into the assessor's database.

Today most new decline-in-value discovery comes from taxpayer's requests for reviews. Requests are accepted throughout the year; forms are available at the assessor's public counter in downtown Los Angeles and the district offices. Applications can also be downloaded from the assessor's website. Letters are sent to taxpayers acknowledging the receipt of an application. Notices of value reduction are sent after the property value is reviewed, which explains the results. The assessor has an effective program for annually reviewing and adjusting real property assessments to reflect declines in value.

### **Supplemental Assessments**

Sections 75 through 75.80 mandate supplemental assessments for changes in ownership and the completion of new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completion of new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The Los Angeles County Assessor has processed an excess of 200,000 supplemental assessments annually in recent years, as illustrated in the following table:

<b>ROLL YEAR</b>	<b>TRANSFER</b>	<b>NEW CONSTRUCTION</b>	<b>TOTAL</b>
2004-05	273,334	35,289	308,623
2003-04	245,596	28,952	274,548
2002-03	227,581	29,474	257,055
2001-02	211,347	25,044	236,391
2000-01	215,063	26,211	241,274

The Los Angeles County Assessor has a completely automated, event-driven supplemental assessment system. All appraisable events and relevant valuation data are entered into the assessor's computer program and then forwarded to the appraisers for valuation. Once the appraiser has valued the property, the values are entered into the property data base (PDB) system. The computer system creates a *Notice of Supplemental Assessment*. The computer system applies the proper inflation factors, including window period events, and forwards the information to the auditor for calculation of the supplemental tax bill.

We reviewed a number of appraisal records of properties that had experienced new construction or a change in ownership. We found the assessor enrolls supplemental assessments in a timely manner and that the assessor's system accurately calculates the supplemental assessment amounts.

In January 2006, we also note that the assessor implemented an online supplemental tax estimator program for taxpayers to estimate the amount of taxes due on their forthcoming supplemental assessment bills.

### **California Land Conservation Act Properties**

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

Property valued under the CLCA program in Los Angeles County consists of approximately 40,000 acres of mountainous open space located on Catalina Island. The Santa Catalina Island Conservancy holds 91 parcels valued as restricted open space. The assessor established 1975 base year values for each of the parcels based on market sales of similar open space properties located on the mainland.

Each year the assessor's staff obtains income and expenses from the Santa Catalina Island Conservancy and the yield rate component published by the Board. The expense information is modified to more accurately reflect typical expenses for similar open space properties. The assessor's staff develops restricted values by the income approach and compares them with the factored base year values for the CLCA parcels. The staff enrolls the lower of the two values. The CLCA parcels appear to be properly assessed.

### ***Taxable Government-Owned Properties***

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11 provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

Taxable government-owned properties must be assessed at the lowest of: (1) the current fair market value, (2) the restricted value pursuant to section 11, or (3) the factored base year value. Generally, in Los Angeles County neither the current market value nor the restricted value play a significant role in assessment of these types of properties since, in most cases, they far exceed the factored base year value.

For the 2005-06 roll, the assessor enrolled 3,378 taxable government-owned properties for a total assessed value of \$213,333,032.

The Ownership Services Division reviews deeds and other recorded documents to determine whether property was taxable when acquired. Currently, one appraiser specialist handles the valuation of all 3,378 parcels of taxable government-owned property. The appraiser relies on permit data to identify potential new construction. A review of records indicates that taxable government-owned properties are not routinely field checked.

Our review of the assessor's taxable government-owned property assessment program revealed one area that needs improvement.

**RECOMMENDATION 6:** Improve the inventory system for taxable government-owned properties.

We discovered 102 of the 3,378 taxable government-owned parcels were misdirected to district offices for valuation. Of these properties, 25 were erroneously valued as decline-in-value properties.

Taxable government-owned properties misdirected to district offices often are not identified as such. Further, appraisers in district offices may not be aware of the special assessment procedures regarding the valuation of taxable government-owned properties. Thus, the misdirection of taxable government-owned properties to district offices often results in assessment errors. For example, many taxable government-owned properties are issued supplemental assessments because they were not identified correctly. By properly directing taxable government-owned properties to the appraiser specialist, improper assessments could be avoided.

### ***Taxable Possessory Interests***

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

The possessor holds taxable possessory interests for a finite period of time; they are not interests held in perpetuity. Section 107 and Rule 20 define taxable possessory interests, while Rule 21 addresses the valuation of such interests.

The assessor's workload includes approximately 9,800 taxable possessory interest assessments. The possessory interest staff is composed of a principal appraiser, two supervising appraisers, and ten field appraisers. For the 2005 roll, the total assessed value of taxable possessory interests in Los Angeles County was about \$11.2 billion, representing approximately 1.3 percent of the 2005-06 assessment roll.

The assessor discovers taxable possessory interests in several ways, and considerable effort is devoted to the discovery process. The primary means of discovery is the reporting to the assessor by public agencies owning real property in Los Angeles County. Other means of discovery include building permits, newspaper articles, and discovery by appraisers in the field.

Our review of the assessor's taxable possessory interest assessment program revealed two areas in need of improvement.

**RECOMMENDATION 7:**     Revise the taxable possessory interest program by:  
                                  (1) issuing supplemental assessments upon all changes in  
                                  ownership of taxable possessory interests, and (2) properly  
                                  valuing taxable possessory interests in property owned by  
                                  redevelopment agencies.

### **Issue supplemental assessments upon all changes in ownership of taxable possessory interests.**

We found that the assessor does not issue supplemental assessments for all changes in ownership of taxable possessory interests.

Under section 75.10, a supplemental assessment should be issued upon a change in ownership or the completion of new construction, and this includes all changes in ownership or new construction involving taxable possessory interests. Although section 75.5 excludes from supplemental assessment newly created taxable possessory interests established by month-to-month agreements with a full cash value of \$50,000 or less, the cases in which we found that supplemental assessments had not been issued did not fall under this exclusion.

In the sample of assessments we reviewed, most supplemental assessments were properly made, and the supplemental assessments not made were for relatively small amounts. However, the failure to properly levy a supplemental assessment reduces the supplemental assessment roll to an amount less than it otherwise should be, with a corresponding reduction in the amount of property taxes levied.

### **Properly value taxable possessory interests in property owned by redevelopment agencies.**

We found that the assessor values taxable possessory interests in property owned by redevelopment agencies as all other taxable possessory interests are valued, that is, with the value of the public owner's reversionary interest excluded from the assessed value. Such interests, however, should be valued as if owned in fee simple. Section 33673 of the Health and Safety Code prescribes how real property owned by a redevelopment agency and leased for private use should be assessed:

Whenever property in any redevelopment project has been redeveloped and thereafter is leased by the redevelopment agency to any person or persons or whenever the agency leases real property in any redevelopment project to any person or persons for redevelopment, *the property shall be assessed and taxed in the same manner as privately owned property, and the lease or contract shall provide that the lessee shall pay taxes upon the assessed value of the entire property and not merely the assessed value of his or its leasehold interest.*

[Emphasis added.]

The Board's interpretation of the above provision, as discussed in Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interest* (AH 510), pages 75-76, is that taxable possessory interests in redevelopment agency property should be valued as if owned in fee simple with the value of the reversionary interest retained by the redevelopment agency included in the assessed value.

If a taxable possessory interest involves a portion of a property's total leasable area, the assessed value of the taxable possessory interest should reflect a pro-rata allocation of the property's total fee simple value.

The failure to value taxable possessory interests in redevelopment agency property in the manner described above reduces the assessment roll to an amount less than it otherwise should be, with a corresponding reduction in the amount of property taxes levied.

### ***Refineries***

The Major Real Property Division collects physical and financial information on oil refineries for their assessment. Copies of refinery business records are required from the refinery companies each March. The data is reviewed and analyzed considering the income and cost approaches to value. A unitary appraisal, encompassing land, structures, and fixtures, is made for each refinery.

We found no problems with this program.

### ***Restricted Historical Properties***

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily prescribed capitalization of income method. For assessment purposes, qualified historical property under such a contract is referred to as "restricted historical property." Section 50280.1 provides that in order for a property to qualify as historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Restricted historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method, as provided in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the Board;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

For the 2005-06 roll, the assessor enrolled 838 restricted historical properties; there are no historical property contracts in nonrenewal status. The number of restricted historical properties is growing rapidly as commercial properties are being converted to residential living units throughout Los Angeles County. Examples are the Rowan Building, constructed in 1912, now 12 residential units; the Westinghouse Building, constructed in the 1930s, converted to 161 residential units ready for occupancy; and the Equitable Building, built in 1929, currently being converted to 60 flats and two-story loft-style condominiums.

The following table illustrates the most recent data available for restricted historical properties:

ROLL YEAR	PROPERTIES	ROLL VALUES
2004-05	688	\$382,532,635
2003-04	502	\$235,868,204
2002-03	397	\$146,132,751
2001-02	333	\$97,224,151

Under section 439.2, restricted historical properties must be assessed at the lowest of: (1) current market value, (2) factored base year value, or (3) the restricted value.

The assessor uses a checklist to ensure that all necessary information is included in the contract, such as the date of recording, provisions for renewal, and other contract terms.

We found no problems with this program.

### ***Leasehold Improvements***

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on Form BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance, and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

Real property appraisers at the Los Angeles County Assessor's Office discover tenant improvements from building permits or referrals from auditors reviewing BPSs. If it is determined that structural improvements are added, the real property staff adds the value of the new improvements. If it is determined that the additions involve fixtures, the business property staff is informed by a memorandum by the real property staff. When structural improvements are reported on the BPS, the business property staff informs the real property staff by memorandum.

The review of building permits and BPSs facilitates the identification and classification of tenant improvements; the memorandum system of coordination between the real property and business property staff properly determines the responsibility for the tenant improvement assessments.

**Water Company Properties**

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

The assessor's natural resources unit of the Major Appraisals Subdepartment is responsible for the valuation of all water company property located within the county. We were able to identify a total of 166 water companies from county records. The following table is a list of the type of water companies assessed by the assessor's office:

TYPE	COMPANIES	ASSESSED VALUES
CPUC Regulated	17	\$322,552,923
Mutual	55	\$45,064,778
Municipal (Section 11)	23	\$4,053,980
Unregulated Private	71	\$86,239,487

The assessor utilizes various resources for discovering water company properties, such as lists from the Los Angeles County Small Public Water Systems, the State Department of Health Services Drinking Water Program, and the California Public Utilities Commission (CPUC).

**Municipal Water Systems**

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government that is located within its boundaries. This exemption includes both property owned by city water departments that is located within city limits, and property owned by water districts that is located within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California Constitution provides that publicly owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district. Taxable government-owned property is discussed in a separate section of this survey.

We did not find any problems with the assessment of parcels in Los Angeles County owned by municipal water systems.

**Water Companies Regulated by the CPUC**

Private, for-profit water companies are subject to rate-base regulation by the CPUC. In brief, this form of regulation limits the rate a company may charge to the cost of service plus a fair return on rate base, or invested capital. For this reason, the market value of the properties of a regulated

water company should correlate closely with the Historical Cost Less Depreciation (HCLD) of the company's assets.

Los Angeles County has 17 water companies regulated by the CPUC. The assessor correctly assesses properties owned by these water companies using the HCLD method.

### Private Water Systems Not Regulated by the CPUC

Unregulated private water systems are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated on a for-profit basis to supply water to commercial developments, such as manufactured home parks, resorts, or campgrounds. They are unregulated because they do not sell water to the general public, but rather supply water only to users in their own development. The assessor correctly assesses all properties owned by unregulated water companies within the county.

### Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water, at cost, primarily to its stockholders or members. When incorporated, an association can enter into contracts, incur obligations, own property, and issue stock. If not incorporated, it can do these things only in the names of all of its members. Corporations organized for mutual water company purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than stockholders or members. Mutual water company shares are typically appurtenant to the parcels that the company serves. In such cases, the assessed values of these parcels include the value of the mutual water company assets.

We found one area of concern regarding the valuation of property owned by mutual water companies. The following recommendation is repeated from our 2002 survey.

**RECOMMENDATION 8:** Value property owned by mutual water companies at a minimum value when those property values are included in the land they serve.

We discovered that parcels owned by mutual water companies whose shares are appurtenant to the land that they serve are enrolled for substantial amounts even though the served parcels are valued at their sales price. The assessor values the mutual water company properties in the same manner as properties owned by other types of water companies. Value is based on a historical cost approach using information received on a property statement from the property owner.

This is a repeat recommendation. In response to our recommendation from the prior report, the assessor opined that the typical buyer of a property served by a mutual water company pays a separate fee in escrow independent of the property's purchase price for an ownership share in the mutual water company.

In discussions with a number of title insurance companies in Southern California concerning this issue, title insurance companies were unaware of separate fees in escrow paid by buyers of

properties served by mutual water companies for an ownership share in the mutual water company.

In some cases, the buyers do pay fees to mutual water companies in escrow when the seller is behind in his/her payment of maintenance fees or water fees to the mutual water company or for processing the reassignment of the shares in the mutual water company. However, this does not represent any ownership interest in the mutual water company.

Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, provides that the value of mutual water company property is typically reflected in the value of the land it serves and property to which the shares are attached. This reflects purchasers taking into account water availability and share ownership when buying the served property. Therefore, if the assessor values the served land at the sales price, the value of the mutual water company property is included in the value of the served land.

The assessor should enroll a separate assessment for the mutual water company property at a nominal or zero value when appraising the land serviced by the mutual water company at the value indicated by the sales price. The assessor then recognizes that the indicated sales price includes share ownership, and thus avoids double assessments. It is the buyer's understanding that the purchase price included an ownership share in the mutual water company.

### ***Mineral Properties***

By statute and case law, mineral properties are taxable as real property. These properties are subject to special rules designed to accommodate their unique characteristics. There are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties. There are no significant geothermal properties in this county.

### **Mining Properties**

There are 18 mining properties in the county with a total assessed value of \$181,340,800. The natural resources unit of the Major Real Property Division determines the assessed value of mining properties. One appraiser specialist is assigned to value these properties; the supervising appraiser then reviews the assessments. Properties are typically valued using an income approach. Estimates of revenue are based on projected production and expenses supplied with the annual production report filings and on information received from the taxpayers. We have no recommendations regarding these properties.

### **Oil and Gas Producing Properties**

Oil and gas property rights refer to the rights to remove petroleum and natural gas from the earth. Other property may be associated with these mineral rights. The right to remove petroleum from the earth is a taxable real property interest. Increases in recoverable amounts of petroleum and natural gas caused by changed physical or economic conditions constitute additions to the

property interest. Conversely, reductions in recoverable amounts of petroleum or natural gas caused by production or changes in expectation of future production capabilities constitute a reduction in the property interest.

Los Angeles County is the second largest petroleum producing county in the state, producing 11 percent of the oil and 6 percent of the gas. The 2005 assessed value of the 233 petroleum properties in the county exceeds \$1.5 billion.

The assessor has two petroleum engineers and four appraiser specialists assigned to value these properties. Appraisals are generally assigned geographically, with the engineers working on the more complex properties in the county. The appraiser specialists and the engineers make estimates of future production, revenues and expenses, and generally use an income approach to determine property value.

In our 2002 survey, we recommended that the assessor not rely on the Memorandum of Understanding (MOU) for determining the petroleum price schedule used in the income approach. The MOU was an agreement between several counties and petroleum taxpayers on the specific formulation used to forecast prices.

The formula heavily weighted past prices in determining the future forecast. When prices are stable, this method has merit. However, when prices are volatile, as they were in the early part of 2001 and subsequent years, reliance on past price performance is not advisable. Since that prior survey, the MOU has been discontinued, and the Los Angeles County Assessor and other assessors are now using a different procedure for forecasting petroleum prices that incorporates forward-looking price projections.

With the recent increases in petroleum prices, the market values of petroleum properties have also increased. A significant number of properties are now enrolled at their factored base year value. A review of the procedures used by the assessor indicates that the proper adjustments are being made for increases in proved reserves and depletion of value from produced petroleum.

### ***Pipeline Rights-of-Way***

Intercounty pipeline rights-of-way were assessed by the Board from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the Board's constitutional authority. The court ruled that while the pipelines themselves are properly assessed by the Board, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, which govern the valuation of intercounty pipeline lands and rights-of-way.

The Los Angeles County Assessor assessed 12 pipeline rights-of-way on the 2004-05 roll at an assessed value of \$31,541,629. Our review indicates that the assessor is valuing all pipeline rights-of-way correctly, using density classifications, adding additional value for the presence of multiple pipelines, and combining all separate pipeline rights-of-way into a single assessment per taxpayer in compliance with sections 401.8 and 401.10.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business equipment, and discovering and assessing leased equipment, manufactured homes, aircraft, vessels, and animals.

### ***Audit Program***

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

In Los Angeles County, property tax audits are conducted by each of the seven district offices. The audit workload is spread among 7 principal appraisers, 13 supervising appraisers, and 60 journey level auditor-appraisers. A chief appraiser is responsible for each district office, and one principal appraiser oversees the personal property functions of the office. The chief appraiser reviews audits whose findings result in changes exceeding \$2 million in assessed value. The principal appraiser reviews all audits resulting in over \$500,000 in deficiencies or \$250,000 in refundable value. The supervising appraiser reviews all audits.

The Los Angeles County Assessor's Office has a separate audit unit to perform out-of-county and out-of-state audits. This unit is solely responsible for audits of businesses headquartered outside of the county. Additionally, the assessor participates in the California Counties Cooperative Audit Services Exchange. The assessor's staff completes audits of locally sited taxpayers for other participating assessors, and occasionally contracts with other counties to complete audits of remotely sited taxpayers on Los Angeles County's behalf.

The following table shows the total number of audits completed in recent years by the Los Angeles County Assessor:

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2005-06	2,618	2,460	158	\$1,507,689,329
2004-05	2,615	2,498	117	\$3,239,611,086
2003-04	2,654	2,369	285	\$1,850,464,912
2002-03	3,178	2,318	860	N/A
2001-02	3,647	2,078	1,569	N/A

### Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more for four consecutive years.

In our 2002 survey, we recommended that the assessor perform physical inspections during audits of large businesses. The assessor implemented this recommendation and issued a memo dated July 23, 2003, directing physical inspections for all local mandatory audits whenever possible and for foreign mandatory audits when certain conditions are met.

We reviewed a number of audits to confirm whether or not this directive has been properly followed. We found that, for the most part, assessor's staff is adhering to this policy. In the occasional instances where a physical inspection was not performed, further analysis indicated adequate reasoning why a physical inspection would not be practical or necessary.

The assessor has a total of 10,446 mandatory audit accounts, resulting in an average annual workload of 2,612 audits. The assessor does an excellent job at managing his audit workload. Audit progress is tracked on a monthly basis via production reports that are prepared by each of the district offices. Additionally, individual audit activities are regularly tracked by administration.

Historically, the assessor's audit workload has generally been completed timely. On average, only 7 percent of mandatory audits are not completed timely each year. Administration attributes this mostly to scheduling issues. The assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. Given the magnitude of audits scheduled by this office each year, it is reasonable to conclude that circumstances would preclude the timely scheduling of a small number of audit appointments.

We have no recommendations for the assessor's well-managed mandatory audit program.

### Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for

the investigation and resolution of special problems uncovered during the processing of property statements.

As noted in our 2002 survey, the assessor understands the importance of auditing nonmandatory accounts and has performed a large number of them. Though a significant number of nonmandatory audits are still being performed, the assessor has drastically curtailed the scope of this program, citing the loss of State Property Tax Administration Program grant funds as a reason. There have been 158 nonmandatory audits completed for the 2005-06 roll year.

### **Audit Quality**

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We sampled a number of audit records from five of the seven district offices. We found that both mandatory and nonmandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. In addition, we found the assessor's audit procedures, audit review, and audit controls to be well structured and maintained. These factors contribute to the high level of consistency observed among the records sampled. We commend the assessor for his excellent audit program.

### ***Business Property Statement Processing Program***

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, agricultural property, vessels, and certificated aircraft.

The number of business property statements processed by the assessor in recent years and the dollar volume of the statements processed are shown in the following table:

ROLL YEAR	SECURED ACCOUNTS	ASSESSED VALUE*	UNSECURED ACCOUNTS	ASSESSED VALUES*	TOTAL ACCOUNTS	TOTAL ASSESSED VALUE*
2004-05	2,460	\$4,692,114	348,200	\$33,189,983	350,660	\$37,882,097
2003-04	2,673	\$4,657,859	348,790	\$32,474,758	351,463	\$37,132,617
2002-03	2,841	\$4,770,953	349,419	\$32,900,944	352,260	\$37,671,897
2001-02	3,260	\$4,972,422	352,072	\$32,654,864	355,332	\$37,627,286
2000-01	3,270	\$4,811,634	355,717	\$32,113,085	358,987	\$36,924,719

\* Dollar amount in thousands of dollars.

The discovery of taxable property is an essential function of the assessor. Part of that function is to maintain accurate and up-to-date listings of assessable business properties. To discover assessable business properties, the assessor uses various sources or methods, including field canvassing, business licenses, business directories, leased equipment listings, newspapers, phone directories, and tenant information from landlords.

Our review identified one area needing improvement.

**RECOMMENDATION 9:** Require certified appraiser review of property statements processed by clerical staff.

In 2002, the assessor instituted a procedure that allows clerical staff in the district offices to process business property statements. These statements are processed by clerical staff without any review by an appraiser. This procedure is contrary to the provisions of section 670 and advice issued in LTA 2003/068 (October 29, 2003), "Guidelines for Appraiser's Certification and Training."

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the Board. Processing a business property statement involves the valuation of business property, a function that can be performed only by one who holds a valid appraiser's certificate.

In LTA 2003/068, at page 10, the Board issued guidelines for the use of non-certified personnel in processing routine business property statements. Among these is that exceptional items and those with taxpayer comments be referred to an appraiser for resolution. Clerical staff is also discouraged from making decisions as to property classifications.

These Board guidelines also provide that the appraiser must first verify that the items are properly described and assessable. Most importantly, an appraiser must review the resulting value estimate. By allowing clerical staff to process the business property statements without

review, the assessor has no way of ensuring that the proper value has been enrolled. Without assessment by a certified appraiser, the assessor risks the enrollment of an incorrect value.

### ***Business Equipment Valuation***

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the Board shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the Board annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The proper selection and application of valuation factors applied to historical cost produces an estimate of market value. The Board annually publishes equipment index factors and percent good factors in AH 581. This handbook is useful to the assessor in the valuation of business property and trade fixtures. The equipment index factors measure the annual trended values of equipment with normal service lives. The percent good factors reflect the average loss in value that commercial or industrial equipment will suffer over its service life.

The Los Angeles County Assessor adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment, such as facsimile equipment, photocopiers, residential satellite dishes, hi-tech medical equipment, pagers and mobile phones, and point-of-sale equipment. The CAA recommends that costs of such equipment should not be trended. We reviewed a sample of business property assessments and found that the assessor fails to consistently assess supplies. These concerns are addressed in the following recommendation.

**RECOMMENDATION 10:** Assess all taxable supplies.

We found that the assessor did not input or assess an amount for supplies when the taxpayers did not report supplies on their business property statements. Article XIII, section 1 of the California Constitution requires that all property be taxed unless the property is exempt from taxation by State or Federal law. Generally, all businesses require some supplies in order to conduct business. Supplies may include fuel, spare parts, office supplies, chemicals used to produce a chemical or physical reaction, janitorial and lavatory supplies, and medical, computer, and accounting supplies.

Since business supplies are subject to property taxes, they are reportable on the annual business property statement. Taxpayers may neglect reporting supplies because the amount on hand is a small percentage of the total cost of the taxable property. In those cases, the assessor should estimate a reasonable amount and assess supplies to the taxpayer.

## **Leased Equipment**

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

Assesseees are required to report all leased property on their annual property statements. Also, for each item reported, they are required to provide information on the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

The majority of the workload regarding the assessment of leased equipment in Los Angeles County is the responsibility of the leasing section, which is comprised of a supervising appraiser, four auditor-appraisers, and four clerical support staff. The leasing section is responsible for the appraisal of equipment owned by all professional leasing companies headquartered in Los Angeles County who report leased equipment in 20 or more locations within the county. The leasing section also processes all statements submitted by leasing companies whose primary business is leasing equipment that it manufactures. Lastly, the leasing section is responsible for all leasing companies whose headquarters are not sited in Los Angeles County, regardless of the number of locations to which it leases equipment within the county.

The assessor utilizes two tools to track reported and enrolled leased equipment. The first is a database, called the Lease Referral System, which tracks leased equipment reported on Part III of the lessees' business property statements. Clerical staff at each of the district offices input reported lease detail into the referral system, enabling further action by the leasing section, if necessary. The second tool is a spreadsheet, maintained by the leasing section, which describes all leased equipment reported to, and enrolled by, the leasing section. This spreadsheet is periodically updated by the leasing section and is available to the district offices for download.

These two tools serve as controls in three crucial aspects of business property statement processing. When processing lessee's business property statements, which include leased equipment reported on Part III of the business property statement, the appraiser cross references the reported information against the spreadsheet to determine if the equipment is already assessed to the lessor. If the reported equipment appears on the spreadsheet as already enrolled, the appraiser makes a note indicating as such. If the reported leased equipment does not appear on the spreadsheet, the appraiser will enroll the equipment and assess the lessee. Also, a referral will be created on the Leasing Referral System to alert the leasing section of the existence of the lessor and the leased equipment.

Once the processing season comes to a close, three sets of matching criteria are applied to the Leasing Referral System. These include the name of the lessor, the name of the lessee, and the situs of the property. This exercise helps to prevent possible double assessments and facilitates

the comparison of leasing information reported on the lessor's business property statement with information provided by the lessee to ensure the accuracy of the reported cost and acquisition data used as a basis for the calculation of a value indicator.

We reviewed the annual business property statements of several lessors that were processed by the leasing section and a district office. We focused our analysis on valuation methods applied, completeness of reporting, tracking of equipment, correct assessee designation, correct expired lease disposition, and correct processing procedures. The assessor maintains strong procedures for enrollment and tracking of leased equipment. We found that the Los Angeles County Assessor's staff properly distinguishes between leases and conditional sales contracts, and follows correct appraisal and assessment procedures. Additionally, it should be noted that there is good communication between the assessor and prominent lessors, which aids in effective discovery and accurate valuation.

### ***Manufactured Homes***

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

In Los Angeles County, manufactured homes are classified as personal property and enrolled on the secured assessment roll. The assessor's primary means of discovering assessable manufactured homes is through the receipt of information from the State Department of Housing and Community Development, dealer reports of sale, and building permits.

Section 5803(b) requires the assessor, when determining the full cash value of a manufactured home on rented or leased land, to take into consideration data listed in recognized value guides. These value guides include the National Automobile Dealers Association's *Manufactured Housing Appraisal Guide* (NADA).

In Los Angeles County, the manufactured housing and commercial airlines unit of the Major Appraisals Subdepartment has the responsibility of assessing all the manufactured homes located in any of the county's 708 mobilehome parks. The assessment of manufactured homes not located in mobilehome parks are the responsibility of the district office assigned to that geographical area.

The manufactured housing and commercial airline unit uses data from the value guides to value manufactured homes. The assessor considers the general overall condition of the manufactured home and includes the value of accessories, such as awnings, porches, and skirting, when estimating the assessed value.

We reviewed a number of manufactured home assessments, including transfers and new installations of manufactured homes. Generally, the assessor has an effective program for the discovery and assessment of manufactured homes. However, in our 2002 survey, we made

several recommendations to improve the assessor's manufactured home valuation program. The assessor implemented four of six recommendations. Therefore, we are repeating those recommendations not implemented.

**RECOMMENDATION 11:** Improve the assessment of manufactured homes by:  
(1) valuing interests in resident-owned mobilehome parks using the residual approach, and (2) issuing supplemental assessments for all reassessable manufactured home events.

**Value interests in resident-owned mobilehome parks using the residual approach.**

We found that the assessor continues to apply to residents' interests or shares in land in resident-owned mobilehome parks a standard value for each pro rata interest.

LTA 99/87 and Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks*, explain that the most reasonable way of allocating residents' ownership shares of such parks would be to extract from the purchase price the value of the manufactured home, using one of the recognized value guides, and then assign the remainder of the purchase price to the interest in the park. This method of allocation ensures that the market value attributable to the location of the space being transferred is recognized.

This residual value represents the market value of each share. Enrolling equalized or average values of those shares or interests overvalues some shares and undervalues others.

**Issue supplemental assessments for all reassessable manufactured home events.**

We found that the assessor still does not issue supplemental assessments for any reassessable events relating to manufactured homes when the change in value is less than \$5,000.

Section 75.55(b) provides that the board of supervisors may adopt an ordinance to allow cancellation of any supplemental assessment by the assessor in which the amount of taxes resulting from the assessment is less than the cost of administration. In no event shall any supplemental assessment be cancelled if the amount of taxes on the bill exceeds \$50.

The Los Angeles Board of Supervisors has not adopted such an ordinance. Therefore, the assessor must issue supplemental assessments for all reassessable manufactured home events.

**Aircraft**

There are three types of aircraft that are subject to personal property tax: General aircraft (including experimental aircraft), certificated or commercial aircraft, and historical aircraft.

The table below illustrates the growth in the total assessed value for aircraft in recent years:

ROLL YEARS	AIRCRAFT	ASSESSED VALUE
2004-05	3,725	\$3,099,203,903
2003-04	3,855	\$2,795,791,620
2002-03	3,426	\$2,387,434,070
2001-02	3,390	\$2,374,516,214
2000-01	3,402	\$2,149,809,590
1999-00	3,021	\$1,817,252,580

### General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (the difference between general aircraft and certificated aircraft is discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the Board. Section 5364 requires the Board to establish such standards. On January 10, 1997, the Board approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

In our 2002 assessment practices survey, we recommended the assessor revise his *Aircraft Ownership Verification* form to comply with sections 5365 and 5367. This form has been revised and now conforms to the requirements of sections 5365 and 5367.

### Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period designated by the Board. Certificated aircraft are assessed in accordance with the methods described in section 401.17.

Prior to the enactment of section 401.17, the assessment of certificated aircraft was governed by a 1998 settlement agreement between a group of counties and airline industry representatives. This settlement expired after the 2003 assessment year. Beginning with the 2004 assessment year, no assessment methodology was specified in the statute for certificated aircraft.

To remedy this void, and to guide assessors for assessment years 2005 through 2010, the Legislature amended section 441 and added section 401.17. In accordance with the requirements of section 401.17, the Los Angeles County assessor recalculated the assessed values of certificated aircraft for the 2005 lien date.

Due to this recalculation, 28 certificated aircraft, excluding freighters, had their 2005 full cash values reduced by more than \$384 million.

### Historical Aircraft

Aircraft of historical significance can be exempt from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as: (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

In Los Angeles County, the processing and granting of exemptions for aircraft of historical significance is handled by the Exemption Services Division of the Administrative and Roll Services Subdepartment. Our review identified three areas needing improvement.

**RECOMMENDATION 12:** Revise the program for exempting historical aircraft by:  
(1) requiring first-time applicants to certify in writing that the aircraft will be made available for public display;  
(2) ceasing to grant the exemption to taxpayers who file their exemption after August 1; and (3) ensuring that taxpayers use the current affidavit to claim an exemption.

#### **Require first-time applicants to certify in writing that the aircraft will be made available for public display.**

Section 220.5(b)(3) requires that first-time applicants certify in writing that their aircraft will be made available for public display for at least 12 days during the 12-month period commencing with the first day the property was made available for public display. The assessor is granting exemptions to applicants who have not certified their intent to publicly display their aircraft. By granting the exemption without certification, the assessor is not in compliance with the requirements of section 220.5(b)(3).

#### **Cease granting the exemption to taxpayers who file their exemption after August 1.**

We found that the assessor grants the historical aircraft exemption for claims filed after the deadline, August 1, for filing this type of claim.

Section 220.5 provides the requirements for the historical aircraft exemption. Further, section 259.11 provides that the affidavit for the historical aircraft exemption must show that the

property and the applicant meet the qualifications for this exemption. Finally, section 255 sets a filing deadline of 5:00 p.m., February 15, to qualify for the 100 percent exemption from property taxes of aircraft with historical significance. The statute also provides an 80 percent exemption if the claim is filed between February 16 and August 1 of each year. No exemption is allowed if the claim is filed after August 1.

By not adhering to the deadline requirements of section 220.5, the assessor is allowing exemptions without authority.

**Ensure that taxpayers use the current affidavit to claim an exemption.**

In two instances, the assessor granted exemptions to aircraft owners who filed their claims using an outdated version of Form BOE-260-B, *Claim for Exemption from Property Taxes of Aircraft of Historical Significance*. The outdated versions have different filing requirements; hence, it is not appropriate to use the outdated version to file a claim for the exemption for the current assessment year. The current revision does not require an appearance before a notary public or an assessor's representative. By using an outdated version of the exemption claim form, the assessor is providing incorrect information to taxpayers.

**Vessels**

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include State Department of Motor Vehicles (DMV) reports, referrals from other counties, marina and harbor master reports, field canvassing or dock walk, United States Coast Guard reports, and information provided by the vessel owners themselves.

Section 3(l) of article XIII of the California Constitution exempts vessels of more than 50 tons burden and engaged in the transportation of freight or passengers.

In addition, section 227(c) allows a 4 percent preferential assessment, or 96 percent exemption, to certain categories of vessels, including those that are engaged exclusively in carrying or transporting seven or more people for hire for commercial passenger fishing purposes and that hold a current certificate of inspection issued by the United States Coast Guard.

The following table details the vessel assessments in Los Angeles County in recent years:

ROLL YEAR	ASSESSMENTS	ENROLLED VALUE
2004-05	60,234	\$1,407,756,981
2003-04	60,002	\$1,307,682,224
2002-03	60,211	\$1,142,437,843
2001-02	59,706	\$1,063,276,499
2000-01	62,026	\$955,082,208
1999-00	59,994	\$799,444,003

Our review identified two areas needing improvement.

**RECOMMENDATION 13:** Improve the assessment of vessels by: (1) requiring a current certificate of inspection for certain documented vessels, and (2) applying the 10 percent penalty for failure to file the vessel property statement as required by section 463.

**Require a current certificate of inspection for certain documented vessels.**

The assessor granted a 4 percent preferential assessment without the required United States Coast Guard current certificate of inspection. Section 227(c) requires a current certificate of inspection from the United States Coast Guard to be eligible for the exemption. The assessor's failure to require a current inspection certificate does not comply with statutory eligibility requirements.

**Apply the 10 percent penalty for failure to file the vessel property statement as required by section 463.**

The assessor applies the section 463 penalty to late-filed or non-filed vessel property statements only if the cost of the vessel is more than \$100,000. This practice does not comply with the requirements set forth in section 441(b).

Section 441(b) provides that a property statement, including a vessel property statement, is considered late if it is filed after May 7 (for an amended statement, the deadline is May 31). The penalty provided in section 463 applies to all late-filed statements.

Section 463 requires that a penalty of 10 percent of the assessed value be added to the assessment on the current roll. This section does not establish a minimum value threshold for the application of this penalty. Thus, the assessor's failure to apply the penalty is not consistent with the requirements of section 463.

## **Animals**

The California Constitution mandates that all property is taxable unless specifically exempt by the Constitution, the laws of the United States, or, in the case of personal property, by an act of the Legislature. Most animals are exempt from taxation. Pets are exempt under section 224. Many animals that are considered business inventory are exempt by sections 129 and 219, and by Rule 133.

Los Angeles is an urban county with few assessable animals. Most animals are reported on Form BOE 571-F, *Agricultural Property Statement*, or discovered during the countywide field canvassing. Taxable animals include those that are held or used in connection with the owner's business, trade, or profession, as well as those used to produce offspring for sale at a net profit; and those with proficiency that have gained substantial monetary or other awards.

Show horses are one of the few types of animals subject to property taxation. Show horses (and other non-exempt animals) are assessed as personal property in the same manner as other items of personal property. Show horses compose the majority of the county's small number of enrolled taxable animals. In completing the *Agricultural Property Statement*, if the assessee owns a registered or show horse, the assessee must complete and include Form BOE-571-F2, *Registered and Show Horses Other Than Racehorses* statement.

The assessor mails a copy of the *Registered and Show Horses Other Than Racehorses* form with each of the 82 agricultural property statements he sends out annually. This practice helps to facilitate taxpayers' compliance with the above requirements.

The forms of discovering taxable animals currently utilized by the assessor include field canvassing, audits, and business property reporting. Other methods of discovering taxable animals include referrals from the real property section, and review of newspapers and periodicals.

We identified two areas that need improvement.

**RECOMMENDATION 14:** Enhance the assessment of animals by: (1) identifying and assessing all taxable animals, and (2) sending the *Annual Report of Boarded Racehorses* form to operators of horse stables.

### **Identify and assess all taxable animals.**

Although field canvassing is an effective discovery tool for most types of business property, taxable animals are often missed with this type of method. The reason lies in the fact that field canvassing, as currently conducted, is rarely performed on residential properties, where the majority of the taxable animals in the county are located. During our examination, we were able to confirm, for example, that at least one major horseback riding school escaped assessment. Furthermore, it appears, based upon interviews with district office staff, that two other discovery

tools are not regularly being utilized to search for taxable animals. These are Internet searches and review of the yellow pages for operations likely to include taxable animals.

Of 51 ranches located, we could only confirm that 9 of these operations were currently enrolled. Eleven businesses appearing in the Antelope Valley Yellow Pages, which would likely own taxable animals, were searched against the county's business property system. We did not find any animals assessed for these businesses.

**Send the *Annual Report of Boarded Racehorses* form to operators of horse stables.**

In Los Angeles County, the *Annual Racehorse Tax Return* is mailed annually to those persons believed to be liable for the annual racehorse tax. The assessor, however, does not mail the *Annual Report of Boarded Racehorses* form to operators of horse stables. We found 14 horse stables listed in the yellow pages that did not receive an *Annual Report of Boarded Racehorses* form. The assessor is missing an important assessment discovery tool by not mailing this form to operators of horse stables in the county.

Assessors typically send *Annual Racehorse Tax Returns* to owners who board their own horses on their own property. The *Annual Report of Boarded Racehorses* is mailed to owners and operators who board racehorses for other racehorse owners. The use of both of these Board-prescribed forms is instrumental in having an effective and efficient racehorse assessment program.

## APPENDIXES

### A. County-Assessed Properties Division Survey Group

#### Los Angeles County

*Chief,*

Dean Kinnee

*Survey Program Director:*

Arnold Fong

Principal Property Appraiser

*Survey Team Supervisor:*

Jody Henning

Supervising Property Appraiser

*Survey Team Leader:*

David Dodson

Senior Specialist Property Appraiser

*Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Michael Ash

Associate Property Appraiser

Yvette Barrios

Associate Property Appraiser

Bob Donay

Associate Property Appraiser

Matthew Hanna

Associate Property Appraiser

Tina Krause

Associate Property Appraiser

Paul Lane

Associate Property Appraiser

Laura Ruiz

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Jeffrey Dangermond

Associate Property Auditor-Appraiser

Manny Garcia

Associate Property Auditor-Appraiser

Bianca Petteway

Tax Technician I

Kristina Valdez

Tax Technician I

## **B. Assessment Sampling Program**

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing<sup>3</sup> activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The Board's County-Assessed Properties Division conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured).<sup>4</sup>

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

**Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

**Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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<sup>3</sup> The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

<sup>4</sup> The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

**New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

**Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, Timberland Production Zone property, and taxable government-owned property.

**Unsecured properties.** Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, that is, the "unexpanded" sample, to over-represent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

**Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

**Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? was there a decline in value?

**New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? Do we concur with the value enrolled? Was the base year amount trended forward properly (for the allowed inflation adjustment)? Was there subsequent new construction? Or, was there a decline in value?

**Non-Proposition 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

**Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County-Assessed Properties Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

### **C. Relevant Statutes and Regulations**

#### **Government Code**

##### **15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

##### **15641. Audit of records; appraisal data not public.**

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.**

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

**15643. When surveys to be made.**

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

**15645. Survey report; final survey report; assessor's report.**

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

**15646. Copies of final survey reports to be filed with local officials.**

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

**Revenue and Taxation Code****75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
  - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
  - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

**Title 18, California Code of Regulations**

**Rule 370. Random selection of counties for representative sampling.**

(a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

(1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

(3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 ET. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

## **ASSESSOR'S RESPONSE TO BOARD'S FINDINGS**

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the Board's comments on the assessor's response, if any, constitute the final survey report.

The Los Angeles County Assessor's response begins on the next page. The Board has no comments on the response.



OFFICE OF THE ASSESSOR  
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RICK AUERBACH  
ASSESSOR

March 14, 2008

Mr. Dean R. Kinnee, Chief  
County-Assessed Properties Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

**ASSESSMENT PRACTICES SURVEY**

Attached is my response to the Assessment Practices Survey and sample of the 2005-2006 assessment roll. Section 15645 of the Government Code requires a written report to the assessor, and allows a response.

The periodic survey of assessor's assessment practices is an invaluable, useful, and constructive tool. I very much appreciate the effort, professionalism, and courtesy of the State Board of Equalization staff while performing the sampling program, the practices survey, and the preparation of the report.

Although some of the recommendations made have been and will continue to be the subject of debate, we welcome an objective review of the operations of this office. We agree with many of your recommendations and will work to make the necessary changes. Where we have differences of opinion regarding your recommendations, these are also noted.

I also wish to commend my staff whose professionalism and dedication was demonstrated by the sample indicating an average assessment ratio of over 99%.

Sincerely,

  
RICK AUERBACH *R.A.T.*

RA:TB

Attachment

**BOE ASSESSMENT PRACTICES SURVEY**  
**LOS ANGELES COUNTY ASSESSOR'S RESPONSES**

March 14, 2008

**RECOMMENDATION 1:** Provide a copy of the record of those racehorse owners receiving the annual racehorse forms to the tax collector.

Response to Recommendation 1:

We agree and will provide a copy of the record to the tax collector.

**RECOMMENDATION 2:** Maintain uniformity in document processing.

Response to Recommendation 2:

We agree and will ensure that all work units follow existing policy. All units now have access to the vital records information.

**RECOMMENDATION 3:** Apply penalties for failure to file *Change of Ownership Statements* within the time prescribed by section 482.

Response to Recommendation 3:

We agree and will ensure that all *Change of Ownership Statement* penalty assessments are properly applied. Any requisite changes to our processing system will be made as soon as resources permit.

**RECOMMENDATION 4:** Include the names of the transferors and the transfer dates on the transfer list as required by section 408.1.

Response to Recommendation 4:

We disagree because the recording date represents the transfer date for the majority of transfers. The names of transferors will be added to the list when resources become available.

**RECOMMENDATION 5:** Improve the assessment of new construction by:  
(1) obtaining all building permits from permit-issuing agencies, and (2) enrolling construction in progress at its fair market value on each lien date.

**BOE ASSESSMENT PRACTICES SURVEY**  
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March 14, 2008

Response to Recommendation 5:

(1) We disagree. We are currently receiving all permits that are necessary for new construction assessment.

(2) We agree and will review our procedures and computer processing when resources become available.

**RECOMMENDATION 6:** Improve the inventory system for taxable government-owned properties.

Response to Recommendation 6:

We agree and have made corrections to the system.

**RECOMMENDATION 7:** Revise the taxable possessory interest program by:  
(1) issuing supplemental assessments upon all changes in ownership of taxable possessory interests, (2) properly valuing taxable possessory interests in property owned by redevelopment agencies.

Response to Recommendation 7:

(1) Issue supplemental assessments on all changes in ownership of taxable possessory interests.

We agree and will issue supplemental assessments on all ownership changes for taxable possessory interests.

(2) Properly value taxable possessory interests in property owned by redevelopment agencies.

We disagree. We are properly valuing taxable possessory interests in property owned by redevelopment agencies.

The findings of the BOE state, "We found that the assessor values taxable interests in property owned by redevelopment agencies as all other taxable possessory interests are valued, that is, with the value of the public owner's interest excluded from the assessed value. This is not an accurate description of how our office assesses such interests. This type of assessment falls under Section 33673 of the Health and Safety Code which states:

**BOE ASSESSMENT PRACTICES SURVEY**  
**LOS ANGELES COUNTY ASSESSOR'S RESPONSES**

March 14, 2008

Whenever property in any redevelopment project *has been redeveloped* and thereafter is leased by the redevelopment agency to any person or persons or whenever the agency leases real property in any *redevelopment project* to any person or persons *for redevelopment*, the property shall be assessed and taxed in the same manner as privately owned property, and the lease or contract shall provide that the lessee shall pay taxes upon the assessed value of the entire property and not merely the assessed value of his or its leasehold interest.”  
[Emphasis added.]

Los Angeles County believes this paragraph directs us to only value leases on property owned by a redevelopment agency in fee when it has either already been developed and then leased or is leased to a party with the intention of redeveloping the property during the lease. In these specific cases we convert the redevelopment parcels to fee parcels and assess them in fee.

However, sometimes redevelopment agencies lease their property on a short-term basis in anticipation of redevelopment occurring at some future date. These properties are typically leased to small operations and are either on month-to-month terms or one or two years with the understanding that the lessor can terminate the lease with thirty or sixty days notice. In these instances we feel Section 33673 of the Health and Safety Code does not apply since these are interim leases. Instead we apply standard possessory interest techniques which would exclude the value of the reversion.

**RECOMMENDATION 8:** Value property owned by mutual water companies at a minimum value when those property values are included in the land they serve.

Response to Recommendation 8:

We disagree. We believe that the shares themselves have minimal intrinsic value; they cannot be separately traded from the land. In fact, land located in districts serviced by an under-funded, poorly maintained system could arguably be less valuable than properties not so situated.

Mutual water company shares merely serve to allow water service to the sites of shareholders. The availability of utilities is considered in all land valuation, regardless of the supplier's structure as a municipal system, PUC-regulated system, mutual water company, etc. A site with water service is logically more valuable than one without. We see no difference between the various company structures, except that government-owned systems are specifically exempt, but even then are taxable under Section 11 when located outside of their jurisdictions.

Under AH 542's theories, mutual water company property likely escapes taxation since the base values established for any individual property owner represent the share value

**BOE ASSESSMENT PRACTICES SURVEY**  
**LOS ANGELES COUNTY ASSESSOR'S RESPONSES**

March 14, 2008

of only property owned by the mutual water company at that time. Typically the costs of newly acquired property are "passed through" via increased water rates. Enrolling nominal values for company owned property means that such property is not assessed until all shares have subsequently transferred and received new base values. Otherwise counties would be in the position of adding value to individual properties serviced by the company on an annual basis. This is not only impractical, but does not lead to fair equalization.

**RECOMMENDATION 9:** Require certified appraiser review of property statements processed by clerical staff.

Response to Recommendation 9:

We agree and will require certified appraiser review of all property statements.

**RECOMMENDATION 10:** Assess all taxable supplies.

Response to Recommendation 10:

We agree and will assess all taxable supplies appropriately.

**RECOMMENDATION 11:** Improve the assessment of manufactured homes by:  
(1) valuing interests in resident-owned mobilehome parks using the residual approach, and (2) issuing supplemental assessments for all reassessable manufactured home events.

Response to Recommendation 11:

(1) We agree and will value interests in resident-owned mobilehome parks using the residual approach.

(2) We agree and will issue supplemental assessments for all reassessable events.

**BOE ASSESSMENT PRACTICES SURVEY**  
**LOS ANGELES COUNTY ASSESSOR'S RESPONSES**

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**RECOMMENDATION 12:** Revise the program for exempting historical aircraft by:  
(1) requiring first-time applicants to certify in writing that the aircraft will be made available for public display;  
(2) ceasing to grant the exemption to taxpayers who file their exemption after August 1; and (3) ensuring that taxpayers use the current affidavit to claim an exemption.

Response to Recommendation 12:

- (1) We agree and have implemented new procedures.
- (2) We agree and have implemented new procedures.
- (3) We agree and have implemented new procedures.

**RECOMMENDATION 13:** Improve the assessment of vessels by: (1) requiring a current certificate of inspection for certain documented vessels, and (2) applying the 10 percent penalty for failure to file the vessel property statement as required by section 463.

Response to Recommendation 13:

- (1) We agree and have implemented new procedures.
- (2) We agree and have implemented new procedures.

**RECOMMENDATION 14:** Enhance the assessment of animals by: (1) identifying and assessing all taxable animals, and (2) sending the Annual Report of Boarded Racehorses form to operators of horse stables.

Response to Recommendation 14:

- (1) We agree and will implement procedural changes to ensure proper assessment of all taxable animals.
- (2) We agree and will send the report to the operators.