

MADERA COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 2008

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March 12, 2008

RAMON J. HIRSIG
Executive Director

TO COUNTY ASSESSORS:

No. 2008/019

MADERA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Madera 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 Thomas P. Kidwell, Madera 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 Madera 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 May through June 2006. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Kidwell 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 Madera 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, and the Senate and Assembly; and to the Madera 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 Thomas P. Kidwell, Madera 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 Code¹ 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 B.

Our survey of the Madera County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Madera County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.²

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.

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

² All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

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.

In Madera County, assessment roll values increased 28 percent between the 2003-04 and 2005-06 assessment years. This increase is significantly above the statewide average. During this period, staffing remained constant. The assessor has achieved this success through efficiencies made possible by the advantageous use of electronic technologies implemented by his staff. Following are a few examples where the assessor has achieved success through the use of electronic technologies:

- The assessor has written computer applications for almost every assessment program in his office. Other assessors are using these applications on an ever-increasing basis. The applications go well beyond a simple electronic worksheet or spreadsheet; they include links to databases and functions that help the assessor avoid erroneous assessments.
- The assessor has purchased software for, and trained his staff in, the use of geographic information system (GIS) mapping, photo mapping, viewing deeds and other documents, and creating applications/claim forms.
- The assessor is testing wireless connectivity whereby appraisers can use a wireless connection to access the assessor's computer system while working in the field.
- To ensure continued progress in these technological areas, the assessor instituted a technology committee among his staff. The committee has a formalized agenda to address the technological issues and requirements of the office.

Additionally, the assessor is active in the California Assessors' Association. He has participated in the legislative process, proposing statutory and administrative law changes. He also has led the county toward the implementation of countywide permit processing and GIS mapping, and was instrumental in the establishment of an appointed assessment appeals board. Furthermore, he has assisted the State Department of Conservation with issues involving property assessed under the California Land Conservation Act.

As part of this survey, we reviewed problem areas discovered in our 2001 survey. In our report from that survey, we made 21 recommendations to address problems in the assessor's policies and procedures. The assessor fully implemented 16 of the recommended changes. Two recommendations no longer apply because of statutory changes, and two others no longer apply because of a change in the assessor's program. Only one recommendation from the 2001 survey was not implemented by the assessor; it is repeated in this report.

The other recommendations contained in this report concern portions of programs that are currently effective, but need improvement. In many instances, the assessor initiated corrective measures prior to completion of our fieldwork.

Currently, the assessor is effectively managing most programs in the area of administration, including appraiser certification, assessment roll changes, exemptions, low-value property exemption, and the racehorse administrative tax. Our primary concerns with the administration programs are that (1) the assessor accepts letters from taxpayers for the withdrawal of appeals when such letters should be sent directly to the assessment appeals board and (2) the assessor's disaster relief reassessment notice does not include the correct assessment appeals information.

Most real property assessment programs are effective and well-run. However, procedures for assessing special use properties need revision; we make recommendations to help improve this area. In assessing taxable possessory interests, the assessor does not comply with Rule 21(d)(1) when establishing the term of possession, and he fails to recognize lessor expenses when using the income approach to value. Additionally, the assessor does not use the correct method for determining the restricted value for taxable government-owned property.

In the area of business property assessments, we found the overall quality of work to be exemplary. There are good tracking systems in place for audits and waivers of the statute of limitations, and the documentation of audits is sound. The leased equipment and manufactured home programs are well-administered. We found only one minor problem with the assessment of aircraft.

Overall, we found no significant assessment problems as defined in Rule 371. Since Madera County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Madera County continues to be eligible for recovery 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: Revise the cover letter and the form for withdrawing assessment appeals to instruct the applicant to submit the form directly to the clerk of the assessment appeals board.13

RECOMMENDATION 2: Include the assessment appeals information required by section 170 on the disaster relief notice.....14

RECOMMENDATION 3: Value property subject to improvement bonds in accordance with section 110(b).22

RECOMMENDATION 4: Correctly determine the restricted value for taxable government-owned property.....27

- RECOMMENDATION 5:** Revise the taxable possessory interest assessment program by:
(1) complying with Rule 21(d)(1) when establishing the reasonably anticipated term of possession for taxable possessory interests with a stated term of possession, and
(2) recognizing lessor expenses when valuing taxable possessory interests by the income approach.29
- RECOMMENDATION 6:** Assign minimum values to mutual water company properties when their values are reflected in the served parcels.31
- RECOMMENDATION 7:** Include sales tax when estimating the full cash value of aircraft.37

RESULTS OF 2001 SURVEY

Appraiser Certification

We recommended the assessor amend appraisal contracts to conform to the requirements of section 674. Since the assessor does not currently have an appraiser under contract, this recommendation no longer applies.

Assessment Forms

We recommended the assessor use only those Board-prescribed forms that have been approved by the Board as required by Rule 171. The assessor implemented this recommendation.

Disaster Relief

We recommended the assessor request the post-damage value on the disaster relief application pursuant to section 170 and include the assessment appeals information required by section 170 on the disaster relief notice. The assessor implemented the first recommendation. However, the assessor still does not include all the assessment appeals information required by section 170 on the disaster relief notice; thus, it is repeated in this report.

Assessment Roll Changes

We recommended the assessor revise the notice of proposed escape assessment to include all the information required by section 531.8. We also recommended he include the caption required by section 533 when enrolling escape assessments. The assessor implemented the first recommendation. The second recommendation is no longer applicable due to recent statutory changes.

Change in Ownership

We recommended the assessor process all changes in ownership timely, apply the non-response penalty required by section 482 in a timely manner, and develop and implement new procedures for processing notices of changes in control of legal entities transmitted by the Board's Legal Entity Ownership Program (LEOP). The assessor implemented all three recommendations.

Supplemental Assessments

We recommended the assessor issue supplemental assessments on long-term taxable possessory interests. The assessor implemented this recommendation.

Taxable Possessory Interests

We recommended the assessor revalue taxable possessory interests at the end of their reasonably anticipated terms of possession as required by section 61, and enroll taxable possessory interests held by nonprofit organizations if the value of those interests exceeds the low-value property exemption. The assessor implemented both recommendations.

Taxable Government-Owned Properties

We recommended the assessor improve assessment documentation of taxable government-owned properties and annually enroll the lowest of the restricted value, current market value, or factored base year value. The assessor implemented both of these recommendations.

California Land Conservation Act Properties

We recommended the assessor classify wind machines as personal property or fixtures. The assessor implemented this recommendation.

Leasehold Improvements

We recommended the assessor ensure that structural leasehold improvements are properly classified and valued as real property, and issue supplemental assessments on all structural leasehold improvements. The assessor has implemented both recommendations.

Audit Program

We recommended the assessor include documentation in audit working papers to adequately support audit conclusions. The assessor implemented this recommendation.

Equipment Valuation

We recommended the assessor discontinue the practice of limiting equipment valuation factors to an arbitrary minimum level. The assessor implemented this recommendation.

Aircraft

We recommended the assessor grant the historical aircraft exemption only upon receipt of a notarized affidavit as required by section 220.5. Due to recent statutory changes, this recommendation no longer applies.

Manufactured Homes

We recommended the assessor document when manufactured homes are classified as real property pursuant to section 18551 of the Health and Safety Code. The assessor implemented this recommendation.

OVERVIEW OF MADERA COUNTY

Madera County lies in central California, about 170 miles southeast of San Francisco and 240 miles northeast of Los Angeles. The county encompasses about 2,150 square miles. Madera County is bordered by the counties of Merced and Mariposa to the north, Tuolumne and Mono to the east, and Fresno to the south and west. Madera County is a general law county created in 1893 and is currently one of the fastest growing counties in population in California.

A few explorers, soldiers, trappers, and Spanish-speaking settlers with Mexican land grants were among the early inhabitants. The next group to arrive were immigrants who came to Madera County to work the placer mines. Currently, Madera County has a population of about 130,000, and has two incorporated cities: Madera and Chowchilla. The leading agricultural products in the county include almonds, grapes, pistachios, milk, vegetable crops, and nursery crops.

The following table displays information pertinent to the 2005-06 assessment roll as provided by the assessor:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
Secured Roll	Land		\$2,733,573,345
	Improvements		\$5,835,124,770
	Personal Property		\$297,855,377
	Subtotal	52,540	\$8,866,553,492
	Homeowners' & Other Exemptions		(\$492,122,397)
	Total Secured Roll		\$8,374,431,095
Unsecured Roll	Land		\$7,797,927
	Improvements		\$108,985,366
	Personal Property		\$201,268,696
	Subtotal	6,047	\$318,051,989
	Homeowners' & Other Exemptions		(\$4,173,083)
	Total Unsecured Roll		\$313,878,906
	Total Assessment Roll	58,587	\$8,688,310,001

The next table illustrates the growth in assessed values over recent years as provided in the Board's annual reports:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2005-06	\$8,822,303,000	13.1%	11.1%
2004-05	\$7,802,732,000	13.5%	8.3%
2003-04	\$6,875,158,000	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, the State-County Property Tax Administration Program (PTAP), appraiser certification, assessment appeals, disaster relief, assessment roll changes, exemptions, racehorse administrative tax, and assessment forms.

Budget and Staffing

As shown in the following table, the assessor's office has benefited from increased budget levels over recent years. The 2005-06 budget increase is partially due to the conversion of PTAP-supported positions to permanent county-supported positions.

BUDGET YEAR	GROSS BUDGET*	INCREASE	PERMANENT STAFF	PTAP FUNDS RECEIVED	PTAP STAFF
2005-06	\$2,452,785	19.05%	36	\$212,991	3
2004-05	\$2,060,282	2.62%	36	\$212,991	5
2003-04	\$2,007,768	9.65%	36	\$212,991	5
2002-03	\$1,831,108	10.39%	36	\$212,991	4
2001-02	\$1,658,735	N/A	35	\$212,991	4

* PTAP funds are included in the gross budget amounts, but will not be received for the 2006-07 budget year.

The size of the assessor's staff has remained stable over recent years. There are 36 staff members: 16 real property appraisers (including the assessor), 3 auditor-appraisers, 3 mapping technicians, and 14 support staff.

We found the assessor has procedures in place to ensure that no conflicts of interest arise in connection to the assessment of employee-owned property within Madera County. Employees are not allowed to appraise or audit their own property or property owned by a relative or friend. Additionally, employees sign a conflict of interest statement acknowledging they have read and understand the policy.

The assessor recently conducted an internal audit of employee-owned properties within the county and found no evidence of inappropriate assessments. Based on our review of the assessment of employee-owned property, we concur.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property

tax administration.³ This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07.⁴ The grant program operates in essentially the same manner as the loan program except that if a county does not meet its performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elects to participate, the county submits a resolution as described in section 95.35 to the State Department of Finance. The resolution provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

For most counties, the resolution provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

Madera County participated in the PTAP from April 1, 1996, until the suspension of the program for the fiscal year 2005-06. The assessor's required base funding and staffing levels are \$1,318,301 and 23 positions, respectively. The grant amount is \$212,991.

The last grant funds received by the assessor were in the 2005-06 budget year. The assessor effectively used these funds for three positions and other expenditures designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

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 19 certified appraisers on staff, 16 of whom 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 is not currently using contract appraisers.

In Madera County, the chief appraiser administers the training and certification program for appraisers. For this purpose, he maintains a spreadsheet for tracking courses taken by the staff. The assessor sends new appraisers to Board training classes as soon as their individual progression allows it, and advanced certificates are earned promptly. In conclusion, we found the assessor's appraiser training and certification program is proactive and efficiently monitored.

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

³ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

⁴ State-County Property Tax Administration Program funding was suspended for two years, beginning with the 2005-06 California State Budget.

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 appeal process.

The appeals board in Madera County was created by Ordinance No. 580, passed and adopted August 1, 2000. Madera County has one appeals board consisting of three members and two alternates appointed by the board of supervisors. The members of the board have successfully completed the training required by section 1624.02.

Applications for assessment appeals are filed with the clerk of the board of supervisors, who also acts as the clerk of the assessment appeals board. The clerk is responsible for providing applications for changed assessment to the public, receiving the applications, reviewing those applications for completeness, providing copies of applications to the assessor, and scheduling appeal hearings. In Madera County, the filing period for appealing an assessment on the regular roll begins July 2 and continues through November 30. For supplemental assessments and other assessments made outside the regular assessment period, an application must be filed no later than 60 days after the mailing of the notice of assessment.

Upon receipt of a copy of the application, the assessor reviews the application and logs it into a tracking spreadsheet before assigning the appeal to an appraiser. Appraisers handle appeals on assessments that they made. During their review of the case, the appraiser will usually call the applicant in an attempt to resolve the appeal. If an applicant decides to withdraw the appeal or agrees to a stipulated value, a letter is sent to the applicant for signature. Upon receipt of a signed letter, the assessor forwards the letter to the assessment appeals board for final approval. If no agreement with the applicant can be reached, the clerk is notified and a hearing is scheduled.

The assessor maintains a comprehensive spreadsheet, effectively tracking the progress of assessment appeals. This spreadsheet is especially useful for ensuring that appeals cases are resolved in a timely manner. No appeal in the last five years has gone unresolved for more than two years, unless the taxpayer agreed to an extension.

The following table illustrates appeal workload statistics for recent years. On the average, 104 appeals were filed annually.

APPEALS	FISCAL YEAR				
	2004-05	2003-04	2002-03	2001-02	2000-01
Total Appeals:					
Applications Received	68	133	132	109	77
Carried Over	78	145	216	167	180
Total	146	278	348	276	257
Resolution:					
Denied-lack of appearance	4	0	3	1	0
Hearing-denied	0	0	0	0	0
Hearing-reduced	2	0	7	1	2
Hearing-increased	0	0	1	0	0
Hearing-upheld	1	2	5	0	4
Invalid	10	2	7	0	0
Stipulation	25	37	21	32	27
Withdrawn	48	159	159	26	57
Other	0	0	0	0	0
Disposition unknown	0	0	0	0	0
Total	90	200	203	60	90
Carried over to next year	56	78	145	216	167

Overall, the assessor's assessment appeal program is well administered. The appraisers do a good job of preparing for hearings, and they work well with the assessment appeals board. However, we did find one area of the assessment appeals program that needs improvement.

RECOMMENDATION : Revise the cover letter and the form for withdrawing assessment appeals to instruct the applicant to submit the form directly to the clerk of the assessment appeals board.

When a taxpayer notifies the assessor of his or her intent to withdraw an application for appeal, the assessor mails a withdrawal form with a cover letter wrongly instructing the taxpayer to sign the withdrawal form and return it to the assessor. The assessor then forwards the form to the appeals board.

The Board's *Assessment Appeals Manual* provides that the appeals board is an independent entity whose function is to resolve disputes between the assessor and taxpayers, and a conflict of

interest may result if the assessor takes an active role in any communications between the taxpayers and the appeals board.

Thus, the assessor's procedure could give an appearance that the assessor is intervening in the independent third-party review to which every appellant has a right. The assessor should revise the withdrawal form and cover letter to instruct the applicant to submit the request for withdrawal directly to the clerk rather than to the assessor's office. The clerk should then timely forward a copy of each withdrawal request to the assessor.

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, assesseees 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 either provide the last known assessee with an application for reassessment or revalue the property 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 percentages of reductions in current market value and reduce the assessed values by those percentages.

The Madera County Board of Supervisors last amended the county's disaster relief ordinance on November 5, 1996. The terms of the ordinance are consistent with section 170. The assessor uses this authority to initiate disaster relief for taxpayers.

The assessor discovers calamities through review of building permits and newspaper articles, field investigations, and taxpayer notifications. In addition, the assessor solicits fire incident reports, where damage exceeds \$10,000, from the one fire protection agency in the county.

We reviewed several records of properties that had suffered calamity. In each case, the assessor noted the disaster information on the records and appropriately adjusted the assessed values of properties for the disaster. We found one area of the disaster relief program needing improvement.

RECOMMENDATION 2: Include the assessment appeals information required by section 170 on the disaster relief notice.

In our 2001 survey, we recommended the assessor include language to inform applicants of their rights to appeal the disaster relief value in the disaster relief notice. The assessor has added this

language. However, since this time, section 170 was amended effective January 1, 2002, where one of its provisions extended the appeals filing deadline to six months. However, the assessor's disaster relief notice has not been updated to include the new appeals filing deadline.

Rather, the assessor's notice continues to provide that the property owner may appeal the proposed reassessment to the local board of equalization within 14 days of the date of mailing the notice. Since section 170(c) now provides that the applicant may appeal the proposed reassessment within *six months* of the date of mailing the notice, the assessor's notice does not conform to current statutory provisions.

Accordingly, the assessor's notice provides misinformation to taxpayers regarding their appeal rights with respect to disaster relief reassessments.

Assessment Roll Changes

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1st. Once the roll is delivered to the auditor, any corrections 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 over recent years:

ROLL YEAR	ROLL CHANGES
2005-06	3,470
2004-05	3,231
2003-04	3,836
2002-03	3,742
2001-02	3,247

In Madera County, appraisers and auditor-appraisers prepare the documentation for roll changes by citing the appropriate statutory authority and preparing the necessary exhibits. A supervisor reviews all roll changes and forwards them to a technician for data entry. Subsequently, the computer system generates the appropriate notices to the taxpayer.

When a *Notice of Proposed Escape Assessment* is mailed to taxpayers, the technician monitors the process to ensure that the ten-day notice requirement specified in section 531.8 is met prior to enrolling the escape assessment. In addition, the assessor issues a notice of enrollment of escaped assessment at the time the assessment is enrolled.

We reviewed the assessor's procedures and a sampling of roll changes. We found roll changes are made within the authorized time period and that the notices are correctly mailed to taxpayers. There are no problems with the assessor's program for assessment roll changes.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt 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 shall not exempt 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. A board of supervisors must adopt a low-value property exemption 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.

In 1998, the Madera County Board of Supervisors adopted Resolution 98-86, incorporating the provisions of section 155.20. The resolution was effective commencing with the 1999 assessment roll. This resolution authorizes the assessor to either exempt or not enroll certain low-value taxable possessory interests with a value of \$50,000 or less.

For the 2005-06 assessment roll, 63 taxable possessory interests qualified for this exemption. We examined these interests and found that they met all statutory requirements for exemption. As authorized by the resolution, the assessor did not enroll any taxable possessory interests that were eligible for exemption. We found no problems with the administration of this program.

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 of the Revenue and Taxation Code, 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), 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.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. In addition, the Legislature has added 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 claimants, 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.

The assessor processed two church exemptions and 184 religious exemptions for the 2005-06 assessment roll. The following table illustrates the number of properties and the amount of assessed value exempt under the religious and church exemptions for recent years:

ROLL YEAR	RELIGIOUS	EXEMPTED VALUE	CHURCH	EXEMPTED VALUE
2005-06	184	\$42,182,214	2	\$107,281
2004-05	186	\$39,935,149	3	\$175,723
2003-04	184	\$37,966,502	2	\$103,250
2002-03	179	\$36,480,967	2	\$101,226
2001-02	174	\$32,336,959	2	\$99,242

In Madera County, an assessment clerk processes exemption claims. Currently the assessor has no formal written procedures for processing these exemptions, but the assessor refers to Board guidance in the form of advisory letters and Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*, as well as information received in a California Assessors' Association exemption workshop. Commercial appraisers personally make field inspections of all real property for which a church, religious, or welfare exemption is claimed.

If a claimant for the religious exemption fails to return the annual religious exemption termination notice, a commercial appraiser makes a field inspection to determine if the religious organization is still in operation. For new claims involving only unsecured business property, an auditor-appraiser makes a field inspection to assure actual operation of the exempt activity.

The assessor requires claimants to file annual affidavits for the church exemption, correctly penalizes late-filed claims, and, in general, maintains an effective program for administering both church and religious exemptions. We have no recommendations for improvement to this program.

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. Effective January 1, 2004, the Board became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* (OCC's) to qualified nonprofit organizations. Additionally, the assessor became 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 possession of a valid OCC.

The following table shows welfare exemption data from recent years. It is important to note that at the time statistics for 2005-06 were assembled, late-filed claims had not yet been processed.

ROLL YEAR	WELFARE	EXEMPTED VALUE
2005-06	117	\$307,168,227
2004-05	114	\$293,923,477
2003-04	92	\$281,015,054
2002-03	91	\$162,260,365
2001-02	86	\$57,502,601

We reviewed a variety of welfare exemption claims, including diverse exempt uses, such as a children's hospital, a church, a senior citizens center, low-income rental housing, a family health center, a day care center, a bible camp, and a legal assistance organization. We found that the assessor requires an OCC from each claimant, consistently applies late-filing penalties, and correctly allocates exempt and taxable areas of properties receiving partial exemptions.

We found no problems with the assessor's welfare exemption program.

Racehorse Administrative Tax

Racehorses domiciled in California are subject to an annual tax in lieu of the 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) requires the assessor to furnish Board-prescribed forms to racehorse owners for reporting the in-lieu tax.

For the 2005-06 roll year, the assessor received reports from three racehorse owners in Madera County. The assessor maintains a file of racehorse owners and sends racehorse tax return forms annually to owners reporting in prior years. In addition, the assessor sends appropriate tax report forms to horse boarding facilities that have reported domicile changes. The assessor also forwards copies of these records to the tax collector as required by Rule 1045(c)(2).

We reviewed forms submitted to the tax collector and assessor, and found no returns that exceeded the threshold amount for mandatory audits.

The Madera County Assessor effectively administers the racehorse administrative tax.

Assessment Forms

Government Code section 15606 requires the Board to prescribe the use of all forms for the assessment of property for taxation.⁵ For the 2005 lien date, the Board prescribed 79 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form, provided that the assessor submits such form to the Board for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for Board-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file a county-developed form.

To enforce the use of prescribed forms, the Board annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the Board copies of the final prints of all prescribed forms they intend to use.

In our prior survey, we recommended the assessor use only current approved Board forms as required by Rule 171. At that time, we found the assessor was using three outdated forms, three rearranged forms that had not been approved by the Board, and a locally-developed form that was inappropriately called a "property statement." The assessor agreed with our recommendation and corrected each of these problems.

Our review of assessment forms for this survey indicated that, with some minor exceptions, the assessor has been timely in submitting the required information to the Board and in completing all aspects of the forms submission procedures. We have no recommendations for this program.

⁵ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

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, taxable government-owned property, and property in Timberland Production Zones.

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 two 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 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.

Discovery/Document Processing

The assessor's primary means of discovering property that has changed ownership is the review of deeds and other recorded documents provided by the county recorder. The recorder requires that Form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, accompany documents that transfer the ownership of real property when submitted for recordation. The recorder adds a \$20 fee to the recording fee when a PCOR does not accompany a transfer document. If no PCOR accompanies the transfer document, the assessor mails Form BOE-502-AH, *Change of Ownership Statement (COS)*, to the owner. Over the last three years, approximately 99 percent of transfer documents forwarded by the recorder were accompanied by a PCOR.

The assessor scans deeds, PCORs, and other relevant documents received from the county recorder into his computer system. If the transfer is determined to be a change in ownership, a support staff enters the transfer data into the system and assigns the transfer to an appraiser.

The following table shows the transfer document activity in Madera County over recent years:

ROLL YEAR	DEEDS PROCESSED	PERCENT INCREASE
2004-05	10,570	1%
2003-04	10,508	31%
2002-03	8,004	19%
2001-02	6,742	6%
2000-01	6,354	

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 legal 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 legal entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

To help assessors, the Board's LEOP unit investigates and verifies changes in legal 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 legal entities do not provide enough information sufficient to identify the real property. Because of the limited data provided by many legal entities, assessors should independently research each legal entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

We reviewed the action taken by the assessor in response to LEOP reports and found no errors pertaining to the identification of parcels involved or the enrollment of the change in ownership. We found the assessor's procedures for processing LEOP notifications are proper.

Section 63.1 Exclusions and 69.5 Base Year Value Transfers

Section 63.1 excludes from reappraisal certain purchases or transfers between parents and children. In addition, certain qualified transfers from grandparents to grandchildren are also excluded. Section 69.5 generally allows qualified homeowners 55 years of age or older, and those who are severely or permanently disabled, to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county if the replacement dwelling is purchased or newly constructed within two years of the sale of the original property. Section 69.5 also includes intercounty transfers for those counties that have adopted an implementing ordinance. Madera County has not adopted such ordinance.

We reviewed several claims for base year value transfers processed by the assessor. We found the assessor accepted only those claim forms that were filed timely, that included the required information, and that contained all the required signatures. The assessor was also diligent in verifying property values and transfer dates for both the original and replacement dwellings, and confirming eligibility for the homeowners' exemptions. We also noted a similar degree of diligence with respect to the processing and review of the parent-child transfer exclusions . We further found that the assessor submitted to the Board quarterly reports on section 63.1 and section 69.5 claims as suggested under section 63.1(f) and as required under section 69.5(a)(7).

The following table displays recent years' filings for sections 63.1 and 69.5 claims:

ROLL YEAR	SECTION 63.1	INCREASE	SECTION 69.5	INCREASE
2004-05	274	-27%	26	-48%
2003-04	375	505%	50	163%
2002-03	62	N/A	19	N/A

Partial Interest Transfers

When a fractional change in ownership occurs, the appraiser determines a new base year value for that portion that changed ownership. The portion that did not change ownership retains its existing adjusted base year value. In Madera County, the assessor uses a spreadsheet for tracking and valuing partial interest transfers. This system is more efficient than performing manual computations of partial interest assessments. We found no problems with the assessment of partial interest transfers.

Improvement Bonds

Improvement bonds are instruments used to finance the construction of public improvements that generally enhance the value of privately-owned real property. Improvements financed using improvement bonds often include sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payment of the bonds. The improvement bond is a lien that encumbers the land and binds the owner and all successors in interest in accordance with the Improvement Act of 1911, the Municipal Improvement Act of 1913, or the Improvement Bond Act of 1915.

We found one area that needs improvement with respect to valuation of property subject to improvement bonds.

RECOMMENDATION 3: Value property subject to improvement bonds in accordance with section 110(b).

When valuing vacant parcels encumbered with bonds, the assessor's policy is to add the bond balance to the sale price of any comparable sales to develop value indicators for the subject property.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property. The assessor can overcome this presumption by a preponderance of evidence. However, in valuing vacant land, the assessor does not provide any evidence to overcome this presumption.

The assessor has completed no studies to support whether all or a portion of the value of the improvements financed by the bond proceeds is not reflected in the purchase price for the comparable parcels. Without adequate documentation to overcome the presumption set forth in section 110(b), the assessor may be over-assessing land encumbered with improvement bonds.

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.

Most new construction activity is discovered through building permits. Other discovery methods include review of newspaper articles, business property statements, and field inspections. During the 2003-04 roll year, the assessor received 6,233 permits, resulting in 2,228 assessments. During the 2004-05 roll year 8,650 permits were received, yielding 3,024 assessments.

There are four permit-issuing departments in Madera County: Madera County Engineering Department, Madera County Environmental Health Department, and the cities of Madera and Chowchilla. The assessor obtains building permits from all four departments and enters the permit data into his computer system.

Permits issued for maintenance, replacement, or repairs of buildings generally do not result in a change in value of the building. The assessor files these types of permits in the property records. The assessor forwards all other permits to the appraisers for assessment purposes. The appraisers conduct field inspections and mails new construction questionnaires to property owners (except for new home permits) to determine whether a change in ownership has occurred. Property owners return about 75 percent of the questionnaires to the assessor's office.

The assessor values construction in progress for each lien date. Upon completion of construction, the assessor assesses new construction based on information obtained from onsite inspections, information contained in the notice of completion, or from information obtained directly from the property owner. In valuing new construction by the cost approach, the assessor uses several cost sources, including Assessors' Handbook Section 531, *Residential Building Costs*, local costs, reported historical costs for residential properties, and *Marshall Valuation Service* for commercial and industrial properties.

We reviewed the assessor's records and found that he is in compliance with governing statutes regarding the assessment of new construction. We also found the assessor has proper documentation for valuation of new construction on both the appraisal record and the assessor's computer system.

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.

The discovery of value declines in commercial, industrial, residential, and agricultural properties is accomplished through several means. In Madera County, the assessor primarily relies on the appraisers' familiarity with their assigned geographic areas and specialties. In addition, assessment appeals and requests for reviews of assessed values may trigger reviews for value declines on a broader scope.

The assessor uses an automated system to track all properties experiencing declines in value. These properties are tracked and coded so that the annual inflation factor will not be applied. A listing of properties with this code is produced each year so appraisers can perform annual reviews and update the assessed values.

Due to a stronger local real estate market, the number of properties experiencing a decline in value has decreased as shown in the following table:

ROLL YEAR	DECLINE-IN-VALUE PROPERTIES
2005-06	147
2004-05	392
2003-04	523
2002-03	599
2001-02	589

The assessor properly reviews and adjusts properties declining in value in compliance with section 51. The records for properties with decline-in-value assessments are complete and include comparable sales; moreover, the appraisals are well-documented and within reasonable value ranges.

Supplemental Assessments

Sections 75 through 75.80 mandate that the assessor enroll supplemental assessments for changes in ownership and for 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, the other for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. Appraisers complete valuation worksheets, which they then forward to an assessment technician, the assessment office manager, and the chief appraiser for various stages of review. After approval, the values are entered into the computer system, which generates supplemental notices that are mailed to the taxpayer. Sixty days after issuance of the supplemental notices, the values are electronically forwarded to the auditor-controller.

In Madera County, the total supplemental assessment process, from the date of the appraisal to issuance of the tax bill, takes approximately three to six months. The assessor enrolls all supplemental assessments, except for those low-value supplemental assessments resulting in a tax bill of \$50 or less, which may be cancelled by county ordinance if adopted according to the provisions of section 75.55. Madera County has adopted such ordinance (#565A). The value of supplemental assessments may be either positive, which will generate a bill, or negative, which will generate a refund.

We found no problems with the assessor’s supplemental assessment program.

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.

For the 2005-06 roll, Madera County had a total of 555,798 acres under CLCA contract. This figure includes 55,334 acres subject to the more restrictive Farmland Security Zone contracts, 1,348 acres subject to open-space easements, and approximately 6,800 acres in nonrenewal status. The figure for nonrenewal acreage has increased recently because of increasing values in the market for developable land. The total assessed value enrolled for land and living improvements was \$456,524,609, representing about five percent of the total assessed value on the 2005-06 assessment roll.

Approximately 70 percent of the land in Madera County is used for agricultural purposes. The uses are diversified and include field crops, fruits and nuts, grapes, livestock, and dairies. The biggest crops include almonds, grapes, pistachios, and both vegetable and nursery crops.

The CLCA assessment program is automated. The computer program calculates the restricted values and performs a comparison with the factored base year value to determine the taxable value. In Madera County, the total taxable value of property, where all or a portion of the property is subject to a CLCA contract, averages about \$825 per acre. Currently, and for the past several years, the fair market value has rarely been the lowest value indicator; instead, it has usually set the upper limit of the range indicated by the three values.

The assessor annually mails questionnaires to the owners of agricultural property. Rental data from returned questionnaires are analyzed by staff to determine economic rents for valuation purposes. The assessor uses cash rents to value CLCA property and uses share rents only for property with orchards and vineyards. For valuation purposes, net rent is then capitalized to arrive at a value indicator. In addition to the interest rate prescribed by the Board, the capitalization rate used by the assessor includes a component for risk and a component for property taxes.

The assessor uses many automated functions in the CLCA assessment program that reduce the potential for errors and omissions, and streamline the valuation process. We found no problems with the assessor's CLCA assessment program.

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.

For the 2005-06 roll year, the assessor enrolled 24 taxable government-owned parcels with a total assessed value of about \$1.4 million. Only two of the parcels include taxable improvements. These improvements were taxable when acquired and are valued according to the provisions of article XIII A, section 11 of the California Constitution.

We reviewed the status of all 24 taxable government-owned parcels. All were found to be located outside their owner-agency's boundaries. We also reviewed a random sampling of 15 properties with a zero value on the assessment roll, and found none outside their owner-agency's boundaries.

Pursuant to a 1995 California Supreme Court decision, taxable government-owned property not located in Inyo or Mono counties is assessed at the lowest of the current market value, the factored base year value, or the restricted value according to the provisions of article XIII, section 11 of the California Constitution. We found that the assessor's yearly review of taxable government-owned properties includes this mandated three-pronged value comparison. However, we found a problem with the method the assessor uses to determine restricted values.

RECOMMENDATION 4: Correctly determine the restricted value for taxable government-owned property.

The assessor is using the 1967 full cash value rather than the 1967 assessed value of the property to annually calculate the restricted value.

Article XIII, section 11 of the California Constitution provides that the restricted value should be calculated by multiplying the 1967 assessed value by the Board-prescribed factor. The Board-prescribed factors already account for the fact that assessed values prior to and including 1981-82 were established at 25 percent of full value. The assessor's current practice of converting the 1967 assessed value to full value before applying the Board-prescribed factor is not consistent with the provisions of section 11 and has resulted in overassessments.

This error can also affect the factored base year value in some cases. If the restricted value is determined to be the lowest value at the time of sale and the assessor enrolls it as the base year value as described above, all subsequent factored base year values would also be incorrect.

Timberland Production Zone Properties

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435). Assuming that TPZ lands are not also under CLCA contract, the annual taxable value of TPZ lands is the lowest of: (1) TPZ value, (2) current market value, or (3) factored base year value.

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed as all other real property.

Madera County has one parcel, consisting of 220 acres, zoned TPZ. For the 2005-06 assessment roll, the total assessed value was \$12,566.

The parcel is not in non-renewal status and is not scheduled for rezoning. The assessor includes the required notation on the roll that the parcel is zoned TPZ. In addition, the assessor properly follows the Board's schedule of per-acre values for the parcel's site classification. The assessor's computerized program updates the parcel's value annually.

We found no problems with the assessor's TPZ program.

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 assessor enrolled about 275 taxable possessory interests on the 2005-06 assessment roll, totaling approximately \$14 million. These interests are in property owned by 44 public agencies and include, but are not limited to, uses by fairground vendors and concessionaires, housing for public employees, food services, summer cabins, campgrounds, cable television franchises, hangars and tie downs at municipal airports, and grazing lands.

In Madera County, the chief appraiser sends letters to federal, state, and local agencies requesting updated listings of tenants and lease terms related to uses of government-owned property. The letter includes an attachment with examples of uses that are considered taxable possessory interests. Upon receipt, the information is forwarded to the appraiser responsible for the geographical area in which the property is located. We reviewed the assessment of more than 20 taxable possessory interests and found two areas in which the assessor is not in compliance with either statutory or regulatory procedures.

RECOMMENDATION 5: Revise the taxable possessory interest assessment program by:
(1) complying with Rule 21(d)(1) when establishing the reasonably anticipated term of possession for taxable possessory interests with a stated term of possession, and
(2) recognizing lessor expenses when valuing taxable possessory interests by the income approach.

Comply with Rule 21(d)(1) when establishing the reasonably anticipated term of possession for taxable possessory interests with a stated term of possession.

The assessor does not always use the stated contract term as the term of possession when valuing a taxable possessory interest. We found assessments where the lease term was one year and the assessor used a term of possession of five years. We also found valuations of taxable possessory interests where, for lien dates subsequent to the initial base year value, the assessor had annually enrolled the factored base year value rather than the full cash value based on the remaining term of possession.

Section 51 requires the assessor to assess real property, including taxable possessory interests, at the lesser of the base year value (adjusted annually for inflation by no more than two percent) or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term of possession, Rule 21 provides that the stated term of possession must be used unless there is clear and convincing evidence that the lessor and lessee have mutually agreed to a different term. The assessor's records showed no evidence of any such agreements.

Failing to assess a taxable possessory interest using the stated term of possession may overstate its taxable value.

Recognize lessor expenses when valuing taxable possessory interests by the income approach.

We reviewed the assessments of several taxable possessory interests and found the assessor does not consistently deduct expenses attributable to the lessor. Based upon information submitted by public agencies, the assessor capitalizes the reported gross income rather than net income.

In the direct income approach, the amount to be capitalized is the future net income that the property is capable of generating under typical management during the term of possession. In addition, Rule 21(e)(3)(C) provides that net operating income is the gross income less allowed expenses. Allowed expenses include, but are not limited to, typical operating expenses, typical management expense, an allowance for a return on working capital, and an allowance for a return on the value of any nontaxable property that contributes to the gross operating income.

The assessor's practice of using gross, rather than net, rent has resulted in overassessments.

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.

In Madera County, the assessor enrolls reported structural improvements on the secured roll and fixtures on the unsecured roll. The assessor's policy is to split the responsibility of assessing leasehold improvements between the real property and business property sections. The real property division is responsible for the assessment of tenant improvements classified as structures; the business property division is responsible for assessing tenant improvements classified as fixtures.

We reviewed assessments for tenant improvements, billboards, foreign improvements, cell towers, and wind machines, and found no problems. In addition, we found no problems with the coordination between the real property and business property divisions in the assessment of these improvements.

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.

Regulated Water Companies

Regulated water companies are in business to earn a profit from the sale of water. The California Public Utilities Commission (CPUC) regulates the rates charged by these companies, limiting profits to an authorized return on the companies' investments. The market value of real property owned by a regulated water company is tied directly to those rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value.

The assessor enrolled the property of five regulated water companies on the 2005-06 assessment roll with a total assessed value of \$4,162,246. The assessor annually reviews each assessment, using the historical cost approach to develop a market value indicator for the real property. The market value indicator is then compared to the factored base year value, and the lower of the two values is enrolled. To assist in the valuation process each year, the assessor obtains the annual CPUC report for each company. We found no problems with the assessments of property owned by regulated private water companies.

Mutual Water Companies

A mutual water company is a private association created for providing water at cost to its members or stockholders. Usually the individual ownership interests in a mutual water company are appurtenant to individual parcels of land receiving water service from the company.

The assessor enrolled an assessment of \$165,000 for the properties of 11 mutual water companies on the 2005-06 assessment roll. We reviewed the assessments of the properties owned by mutual water companies and found that they were double assessed.

RECOMMENDATION 6: Assign minimum values to mutual water company properties when their values are reflected in the served parcels.

The assessor has enrolled values for properties owned by mutual water companies ranging from \$341 to \$49,229 per parcel, even though the parcels served by the water companies are valued at their sales prices, which include the value of the mutual water company properties.

Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, provides that the value of mutual water company properties is typically reflected in the value of the land they serve and to which the shares are attached. This method addresses water availability (namely, share ownership) when buying served property. Thus, if the assessor values the parcels served at their sales price, the value of mutual water company property is included in those assessments. The assessor's practice of enrolling separate assessments for mutual water company property has resulted in double assessments.

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.⁶ 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.

In Madera County, there are three intercounty pipeline rights-of-way assessed to two companies. For the 2005-06 assessment roll, the assessments totaled about \$475,000. One appraiser handles the assessment of these rights-of-way. We found that the three rights-of-way are assigned to a

⁶ *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

separate, county-wide tax rate area as required by section 100.01, are assessed consistently, and are assessed using procedures that comply with governing statutes.

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.

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.

The following table shows statistics on audit production over recent years:

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	ESCAPE ASSESSMENTS	REFUND ASSESSMENTS
2005-06	48	33	\$24,969,082	\$4,110,701
2004-05	34	34	\$45,759,325	\$12,159,784
2003-04	13	32	\$6,039,333	\$0

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 Madera County, the assessor has an average annual workload of about 36 mandatory audits per year. The primary method of discovery for mandatory audit accounts used by the assessor is the review of business property statements (BPSs). For those accounts where the mandatory audit cannot be completed timely, the assessor consistently obtains waivers of the statute of limitations from the taxpayers. The waivers are tracked to ensure that audits are completed before any waiver expires.

The assessor maintains a mandatory audit list that includes the names of taxpayers, the full value of business properties, and the fiscal years involved. From this list, the assessor can readily ascertain whether taxpayers fall within the mandatory audit guidelines pursuant to section 469. The assessor monitors audit progress on a monthly basis via audit production reports. As of the date of our survey, for the production period of July 2005 through June 2006, the assessor had completed 33 mandatory audits and had nine others in progress. It appeared that the assessor would complete the mandatory audit workload on time.

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.

The assessor understands the importance of maintaining a nonmandatory audit program. For the 2005-06 roll year, the assessor completed 15 nonmandatory audits. Accounts considered for this audit program include accounts where exceptions were noted during BPS processing and accounts with chronic non-filing history.

Overall, the assessor's audit program is well managed.

Business Property Statement 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, and agricultural property, vessels, and certificated aircraft.

We reviewed the assessor's property statement processing procedures and files to ensure that they conform to statutory and regulatory guidelines. We also reviewed statements for authorized signatures and date stamps, and to ensure that all parts of the statement were properly completed. We found statements to be in good order with relevant parts properly filled out.

It is the assessor's policy to use only Board-prescribed property statements and to return all property statements lacking an authorized signature. Section 463 penalties are applied to all accounts where the statements were filed late or where no statements were filed.

We have no recommended changes for the business property statement program.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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 assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in the AH 581 with minor differences. The percent good factors recommended by the CAA also follow those in the AH 581 with the exception of certain minimum percent good factors, which are supported by a study based on data contained in the *Marshall Valuation Guide*.

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*.

In Madera County, the assessor uses information on BPSs and the Board's report on property leased to state lessees as the primary means of discovering leased equipment. Information received from both lessors and lessees is cross-checked to ensure that equipment is assessed, but not double assessed. The assessor makes appropriate trade level adjustments and tracks leased equipment upon termination of the lease to make sure the equipment continues to be assessed.

In addition to reviewing the assessor's procedures for assessing leased equipment, we reviewed a sample of leased equipment assessments. We found the assessor's leased equipment program is well-managed and a diligent effort is made to ensure proper assessments are made.

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 Madera County, manufactured homes are classified as personal property and enrolled on the secured roll. The assessor discovers assessable manufactured homes primarily by reviewing information from the State Department of Housing and Community Development, dealer reports of sale, tax clearance certificates, and building permits.

There are 516 manufactured homes in 21 mobilehome parks in the county. In addition, there are 1,490 manufactured homes situated outside of parks. The total estimated roll value for the 2,006 manufactured homes, as of May 2006, was \$40,542,880. One auditor-appraiser assesses all manufactured homes.

Upon notification or discovery of a new manufactured home, the assessor mails a questionnaire to the owner requesting information about the ownership and property characteristics of the manufactured home. This action is followed by a field visit, the creation of a property record, and valuation by the auditor-appraiser.

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 sales prices listed in recognized value guides. Recognized value guides include, but are not limited to, the *Kelley Blue Book Official Manufactured Housing Guide (Kelley)*, the *N.A.D.A. Manufactured Housing Appraisal Guide*, and the Assessors' Handbook Section 531.35, *Manufactured Housing*.

The assessor uses an automated valuation system based on *Kelley* to develop a full cash value indicator of the manufactured home as the base year value. This analysis ensures that the value enrolled does not include any value attributable to the site.

In addition, each year the system develops a new full cash value for the manufactured home, compares that value indicator with the factored base year value, and enrolls the lower of the two values. The assessor includes the value of accessories such as awnings, porches, and skirting, and takes into consideration the overall condition of the manufactured home when estimating the full cash value.

We reviewed a number of manufactured home assessments, including transfers and new installations, and found the assessor has an effective program for the discovery and assessment of manufactured homes. The program conforms to statutory provisions and is well-administered. Overall, we found no problems with the assessment of manufactured homes.

Aircraft

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. 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 Madera County, an auditor-appraiser administers the aircraft program. The following table details recent aircraft assessment history:

ROLL YEAR	ASSESSMENTS	ENROLLED VALUE
2005-06	142	\$19,693,782
2004-05	110	\$7,642,846
2003-04	107	\$7,874,445
2002-03	118	\$7,172,717

The assessor discovers aircraft through airport managers' hangar reports, airport operators' tenant lists, referrals from other counties, Federal Aviation Administration reports, and field inspections. Annually, the assessor contacts all airport managers for updates.

Each year, the assessor requests from known owners of aircraft in the county to report certain information on their aircraft, including added or deleted equipment, engine air hours since last major overhaul, date of last overhaul, overall condition, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the requested information, the auditor-appraiser incorporates adjustments for overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul to determine a market value estimate.

We found procedures for the assessment of aircraft to be correctly administered and the estimates of value to be properly calculated, with one exception.

RECOMMENDATION 7: Include sales tax when estimating the full cash value of aircraft.

The assessor uses the *Bluebook* to value general aircraft. Although adjustments are applied for condition and maintenance, the assessor does not include sales tax as a component of value.

Where price is the basis of value, sales or use tax, freight, and installation costs are elements of that value, and should be included in the estimate of market value. The courts have confirmed this principle in several decisions.⁷ Furthermore, Rule 10(b) provides that, for assessment purposes, cost is the full economic cost, which includes all market costs, both direct and indirect, including sales tax or use tax.

The assessor's practice of not including sales tax when estimating the full cash value of aircraft understates the general aircraft's market value.

⁷ See, e.g., *San Diego County v. Assessment Appeals Board No. 2* (1983) 140 Cal.App.3d 52, 59 and *Xerox Corp. v. Orange County* (1977) 66 Cal. App.3d 746, 763.

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.

The following table details recent historic aircraft exemption statistics:

ROLL YEAR	HISTORICAL AIRCRAFT	EXEMPTED VALUE
2005-06	13	\$663,550
2004-05	15	\$690,150
2003-04	14	\$590,900
2002-03	14	\$591,770

We reviewed several historical aircraft exemption claims and files. We found that the required affidavit was in the aircraft file, along with the certificate of attendance describing the dates, names, and locations of the events where the aircraft was on display.

We found no problems with the assessment of historical aircraft.

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, and information provided by the vessel owners themselves.

The following table illustrates recent vessel assessment statistics for Madera County:

ROLL YEAR	VESSELS	ENROLLED VALUE
2005-06	1,685	\$8,896,000
2004-05	1,986	\$11,535,410
2003-04	2,257	\$9,715,200
2002-03	2,429	\$8,855,560

One auditor-appraiser administers the assessor's vessel assessment program. Vessels are valued using data from the *N.A.D.A Marine Appraisal Guide*. If current or reliable information is not available in the published value guide, the assessor uses information on similar vessels from the assessor's own database or searches the Internet for value indicators for the subject vessel.

We found no problems with the vessel assessment program.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Madera County

Chief, County-Assessed Properties Division

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Bob Reinhard

Supervising Property Appraiser

Survey Team Leader:

Sally Boeck

Senior Specialist Property Appraiser

Survey Team:

Carlos Zaragoza

Senior Specialist Property Auditor-Appraiser

Mike Ash

Associate Property Appraiser

Paula Eagleman

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Prubjit Singh

Tax Technician I

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



Madera County Assessor's Office

200 W. 4th Street
Madera, California 93637-3548
Phone (559) 675-7710
Fax (559) 675-7654

THOMAS P. KIDWELL
ASSESSOR

RECEIVED

FEB 11 2008

County-Assessed Properties Division
State Board of Equalization

January 14, 2008

Mr. Ramon J. Hirsig, Executive Director
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0073

Dear Mr. Hirsig,

Pursuant to Government Code Section 15645, please find enclosed my response to the final draft of the Madera County Assessment Practices Survey Report dated December, 2007.

I would like to thank the survey team for their cooperation, consideration and professionalism while conducting the survey. We welcomed this opportunity to have the survey team review our operations and benefited greatly from the frank discussions we had with them concerning the various aspects of our work.

I am especially pleased by the survey team's recognition of our efforts in the performance of our major responsibilities. It is the work of my staff that is truly being recognized in this regard. However, their accomplishments were made with the assistance of many, many others. These include the departments with whom we work in the County of Madera, the staffs of the cities of Chowchilla and Madera, the vendors who assist us in our many operations, other County Assessor Offices' staff, State Board of Equalization support staff, and others too numerous to catalog. They too, just as we, deserve recognition for their part in providing fair, efficient service to the public.

My staff has worked diligently to implement the recommendations made in this survey as well as to improve the performance of our office in areas not surveyed. I am pleased to report that all of the recommendations have either been implemented or will be implemented at the appropriate time.

Sincerely,

Thomas P. Kidwell
Madera County Assessor

Enclosure

Madera County Assessor's Response to the Recommendations of the State Board of Equalization contained in the Madera County Assessment Practices Survey Report dated December, 2007.

RECOMMENDATION 1: Revise the cover letter and form for withdrawing assessment appeals, instructing the applicant to submit the form directly to the clerk of the assessment appeals board.

ASSESSOR'S RESPONSE: We have revised the cover letter and the form as recommended.

RECOMMENDATION 2: Include the assessment appeals information required by section 170 on the disaster relief notice.

ASSESSOR'S RESPONSE: We have revised the notice as recommended.

RECOMMENDATION 3: Value property subject to improvement bonds in accordance with section 110 (b).

ASSESSOR'S RESPONSE: We have revised our procedures to conform to this recommendation.

RECOMMENDATION 4: Correctly determine the restricted value for taxable government-owned property.

ASSESSOR'S RESPONSE: We have revised our procedures to conform to this recommendation.

RECOMMENDATION 5: Revise the taxable possessory interest assessment program by: (1) complying with Rule 21 (d) (1) when establishing the reasonably anticipated term of possession for taxable possessory interests with a stated term of possession and (2) recognizing lessor expenses when valuing taxable possessory interests by the income approach.

ASSESSOR'S RESPONSE: We have revised our procedures to conform to both parts of this recommendation.

RECOMMENDATION 6: Assign minimum values to mutual water company properties when their values are reflected in the served parcels.

ASSESSOR'S RESPONSE: We have revised our procedures to conform to this recommendation.

RECOMMENDATION 7: Include sales tax when estimating the full cash value of aircraft.

ASSESSOR'S RESPONSE: We have revised our procedures to conform to this recommendation.