MERCED COUNTY SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY

DECEMBER 2014

CALIFORNIA STATE BOARD OF EQUALIZATION

BETTY T. YEE, SAN FRANCISCO	FIRST DISTRICT
SEN. GEORGE RUNNER (RET.), LANCASTER	SECOND DISTRICT
MICHELLE STEEL, ORANGE COUNTY	THIRD DISTRICT
JEROME E. HORTON, LOS ANGELES	FOURTH DISTRICT
JOHN CHIANG	STATE CONTROLLER

CYNTHIA BRIDGES, EXECUTIVE DIRECTOR

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
1-916 274-3350 ● FAX 1-916 285-0134
www.boe.ca.gov

BETTY T. YEE
First District, San Francisco

SEN. GEORGE RUNNER (RET.)
Second District, Lancaster

MICHELLE STEEL
Third District, Orange County

JEROME E. HORTON
Fourth District, Los Angeles

JOHN CHIANG
State Controller

CYNTHIA BRIDGES
Executive Director

December 23, 2014

No. 2014/067

TO COUNTY ASSESSORS:

MERCED COUNTY
SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY

A copy of the Merced County Supplemental Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE 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 Barbara J. Levey, Merced County Assessor-Clerk-Recorder, 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 supplemental survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Merced County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this supplemental survey was performed by the BOE's County-Assessed Properties Division during August 2013. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Levey and her staff gave their complete cooperation during the supplemental 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/ Dean R. Kinnee

Dean R. Kinnee
Acting Deputy Director
Property Tax Department

DRK:dcl
Enclosure

TABLE OF CONTENTS

INTRODUCTION **1**
SCOPE OF SUPPLEMENTAL ASSESSMENT PRACTICES SURVEYS **2**
EXECUTIVE SUMMARY **3**
OVERVIEW OF MERCED COUNTY **4**
ADMINISTRATION: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS **5**
ASSESSMENT OF REAL PROPERTY: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS **6**
APPENDIXES **8**
A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP 8
B. ASSESSMENT SAMPLING PROGRAM 9
C. RELEVANT STATUTES AND REGULATIONS 12
ASSESSOR'S RESPONSE TO BOE'S FINDINGS **19**

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 amount of funding, 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 (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Merced County Assessor-Clerk-Recorder's Office.[1]

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 BOE, and the Senate and Assembly; and to the Merced 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 Barbara J. Levey, Merced County Assessor-Clerk-Recorder, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

[1] This review covers only the assessment functions of the office.

SCOPE OF SUPPLEMENTAL ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code[2] section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

The BOE has elected to conduct a supplemental survey for Merced County. The supplemental survey includes a review of the recommendations contained in the prior survey report, the assessor's written response to those recommendations, the assessor's current records pertaining to the recommendations, and interviews with the assessor and her staff. This supplemental survey is made to determine the extent to which the assessor has implemented the recommendations contained in the prior survey report and to identify areas where problems still exist.

This survey also included an assessment sample of the 2012-13 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

Government Code section 15643 requires the BOE to repeat or supplement each survey of a county's assessment practices at least once in five years. Our last full survey of Merced County was conducted in 2008, and published in 2009. The current supplemental survey will serve to supplement the work done during the last survey by revisiting the issues for which we made recommendations for improvement and by determining, for purposes of Revenue and Taxation Code section 75.60, whether Merced County continues to be eligible to recover the costs associated with administering supplemental assessments.

[2] Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

As stated in the Scope of Supplemental Assessment Practices Surveys, the BOE has elected to perform a supplemental survey of Merced County, addressing only the recommendations from the prior survey and whether the assessor has implemented those recommendations.

In the area of administration, we reviewed the prior recommendation identified in the assessor's disaster relief program.

In the area of real property assessment, we reviewed the prior recommendations identified in the assessor's California Land Conservation Act (CLCA) property program and the taxable possessory interests program.

In the area of personal property and fixtures, there were no prior recommendations.

In addition, we found that the Merced County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2012-13 assessment roll indicated an average assessment ratio of 100.1 percent, and the sum of the absolute differences from the required assessment level was 0.57 percent. Accordingly, the BOE certifies that Merced County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF MERCED COUNTY

Merced County is located close to the center of California in the heart of the San Joaquin Valley. Created in 1855, Merced County was formed from portions of Mariposa County. The county encompasses 1,979 square miles, which consists of 1,935 square miles of land (98 percent) and 44 square miles of water (2 percent). Merced County is bordered by Stanislaus County to the north, Mariposa County to the east, Madera and Fresno Counties to the southeast, San Benito County to the southwest, and Santa Clara County to the west.

As of 2012, Merced County had a population of 262,305. There are six incorporated cities: Atwater, Dos Palos, Gustine, Livingston, Los Banos, and Merced. The county seat is the city of Merced.

Merced County is home to the University of California Merced, which is the first research university built in the United States in the 21st century. Other points of interest in Merced County are the historic Castle Air Museum, the Merced National Wildlife Refuge, and the San Luis Wildlife Refuge.

ADMINISTRATION: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following is the recommendation included in our November 2009 Assessment Practices Survey Report and the assessor's response to the recommendation. After the recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our supplemental survey fieldwork.

Disaster Relief

RECOMMENDATION 1: Include the correct appeals filing period in the notice of proposed reassessment for property subject to disaster relief as required by section 170(c).

Assessor's Response:

We concur and made the change immediately.

Current Status:

The assessor has implemented this recommendation. The assessor's notice of supplemental assessment includes a provision informing taxpayers that calamity reassessment filing dates are within six months after the mailing of the assessment notice.

ASSESSMENT OF REAL PROPERTY: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our November 2009 Assessment Practices Survey Report and the assessor's response to those recommendations. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our supplemental survey fieldwork.

California Land Conservation Act (CLCA) Property

RECOMMENDATION 2: Revise the CLCA assessment program by: (1) establishing a base year value for CLCA homesites at market value; (2) properly inputting compatible use income on CLCA property; and (3) using appropriate risk components for different types of agricultural properties.

Assessor's Response:

(1) We concur and will begin that transition of converting all restricted homesites to reflect market value as of the date of the base year.

(2) We concur and will work to incorporate that ability into the property tax system. Currently the system does not have the capability to handle short term income streams.

(3) We concur and will add additional risk rates to properties that are identified as having additional risk.

Current Status:

(1) The assessor has implemented this part of the recommendation. The assessor uses comparable sales to value the homesite as of the date of the change in ownership, thereby establishing the base year value of the homesite at market value.

(2) The assessor has implemented this part of the recommendation. The assessor uses discounted cash flow analysis to account for compatible use income when valuing CLCA properties.

(3) The assessor has implemented this part of the recommendation. The assessor no longer uses the same risk component for all CLCA properties. The assessor has increased the risk component for those CLCA properties in which the assessor has determined there is an additional risk involved.

Taxable Possessory Interests

RECOMMENDATION 3: Exempt property used exclusively for public school purposes from taxable possessory interest assessments.

Assessor's Response:

We disagree as to the meaning of exclusively. The word by definition means that they shall only serve to students. The possessory interest in question is a food service company that has catering contracts with non-school groups on campus. Therefore we believe that they do not exclusively serve the school and are subject to taxation.

Current Status:

We found that although the assessor has not implemented this recommendation, it is because the assessor's practice with respect to this particular possessory interest is correct. After reviewing the prior recommendation and obtaining additional data, we found that the operator of the taxable possessory interest in question has been providing catering services to non-school groups both on and off campus, which would be an indication of an assessable taxable possessory interest.

Although the operator is aware of a possible exemption and has filed a BOE-263-B, *Lessees' Exemption Claim* in the past, they have chosen not to do so in recent years. In the absence of exclusive use for public school purposes or the filing of a claim for an exemption, this is a taxable possessory interest and the assessor is appropriately assessing it as such.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Merced County

Acting Chief

Benjamin Tang

Survey Program Director:

Mike Harris	Manager, Property Tax

Survey Team Supervisor:

Sally Boeck	Supervisor, Property Tax

Supplemental Survey Team:

Andrew Austin	Senior Specialist Property Appraiser
Dany Lunetta	Associate Governmental Program Analyst

B. Assessment Sampling Program

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

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)[4]

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

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

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

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

[4] The nine value strata are $1 to $99,999; $100,000 to $199,999; $200,000 to $499,999; $500,000 to $999,999; $1,000,000 to $1,999,999; $2,000,000 to $19,999,999; $20,000,000 to $99,999,999; $100,000,000 to $249,999,999; and $250,000,000 and over.

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

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

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

C. Relevant Statutes and Regulations

Government Code

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

(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

(b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.

(c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

(d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.

(e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.

(f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

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

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

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

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

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

15642. **Research by board employees.**

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

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

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the ten 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 ten 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 ten 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 audits in accordance with Revenue and Taxation Code section 469.

(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 BOE'S FINDINGS

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

The Merced County Assessor's response begins on the next page. The BOE has no comments on the response.

MERCED COUNTY
OFFICE OF COUNTY ASSESSOR

Barbara J. Levey
Assessor-Clerk-Recorder-
Registrar of Voters

2222 "M" Street
Merced, CA 95340
(209) 385-7631
(209) 725-3956 Fax
www.co.merced.ca.us

Equal Opportunity Employer

Mr. Benjamin Tang, Acting Chief
County –Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0134

RECEIVED
NOV 05 2014
County-Assessed Properties Division
State Board of Equalization

November 3, 2014

Dear Mr. Tang,

Pursuant to California Government Code, Section 15645, I am providing, for inclusion in the final report, a written response to the findings in the Merced County 2012 Assessment Practices Supplemental Survey.

The assessment practices survey program helps promote uniformity, fairness, equity and integrity in the property tax assessment process. The publication of this report should serve to help instill public confidence and integrity in the assessment processes as conducted by this office.

I would like to take this opportunity to thank the Board of Equalization staff, led by Sally Boeck, for the professional manner in which the survey was conducted. The survey team worked in our office beginning in February 2013 and completed their fieldwork in August 2013. Throughout this work, they were professional and courteous.

Finally, I would like to thank the employees of the Merced County Assessor's Office for their professionalism. They strive to provide excellent public service and demonstrate daily their dedication to providing fair, accurate assessments to the property owners of our county.

Sincerely,

Barbara J. Levey

Barbara J. Levey
Assessor-Clerk-Recorder
and Registrar of Voters
Merced County