

MERCED COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2004

CALIFORNIA STATE BOARD OF EQUALIZATION

CAROLE MIGDEN, SAN FRANCISCO
BILL LEONARD, ONTARIO
CLAUDE PARRISH, LONG BEACH
JOHN CHIANG, LOS ANGELES
STEVE WESTLY, SACRAMENTO

FIRST DISTRICT
SECOND DISTRICT
THIRD DISTRICT
FOURTH DISTRICT
STATE CONTROLLER

RAMON J. HIRSIG, EXECUTIVE DIRECTOR





STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062
(916) 324-5827 • FAX (916) 323-5689
www.boe.ca.gov

CAROLE MIGDEN
First District, San Francisco

BILL LEONARD
Second District, Ontario

CLAUDE PARRISH
Third District, Long Beach

JOHN CHIANG
Fourth District, Los Angeles

STEVE WESTLY
State Controller, Sacramento

RAMON J. HIRSIG
Executive Director

April 30, 2004

TO COUNTY ASSESSORS:

MERCED COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2004/024

A copy of the Merced County 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 David A. Cardella, Merced 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 Merced County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from January through February 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Cardella 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/ Mickie Stuckey for

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE OF ASSESSMENT PRACTICES SURVEYS	2
EXECUTIVE SUMMARY.....	3
RESULTS OF 1999 SURVEY.....	5
OVERVIEW OF MERCED COUNTY	6
ADMINISTRATION	7
BUDGET AND STAFFING.....	7
STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM.....	7
APPRAISER CERTIFICATION	8
ASSESSMENT APPEALS	9
DISASTER RELIEF.....	10
ASSESSMENT ROLL CHANGES	11
LOW - VALUE PROPERTY EXEMPTION	12
EXEMPTIONS	13
ASSESSMENT FORMS	15
ASSESSMENT OF REAL PROPERTY	17
CHANGE IN OWNERSHIP	17
NEW CONSTRUCTION	20
DECLINES IN VALUE.....	20
SUPPLEMENTAL ASSESSMENTS.....	22
CALIFORNIA LAND CONSERVATION ACT PROPERTY.....	22
TAXABLE GOVERNMENT-OWNED PROPERTY	24
POSSESSORY INTERESTS.....	25
LEASEHOLD IMPROVEMENTS.....	26
WATER COMPANY PROPERTY.....	27
MINERAL PROPERTY	27
PIPELINE RIGHTS-OF-WAY.....	28
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....	29
AUDIT PROGRAM.....	29
BUSINESS PROPERTY STATEMENT PROGRAM.....	31
BUSINESS EQUIPMENT VALUATION	33
LEASED EQUIPMENT	34
MANUFACTURED HOMES	35
AIRCRAFT.....	37
VESSELS	38
ANIMALS.....	39

APPENDICES..... 40
 A. COUNTY PROPERTY TAX DIVISION SURVEY GROUP 40
 B. RELEVANT STATUTES AND REGULATIONS..... 41
ASSESSOR'S RESPONSE TO BOE'S FINDINGS..... 47

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 comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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 of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Merced County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increase the number of recommendations in the survey reports.

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, the Senate and Assembly, and 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 David A Cardella, Merced County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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 BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Merced County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Merced County that 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 survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

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 our 1999 Merced County survey report, we made four recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented two of the recommended changes, and two recommendations no longer apply.

In the area of administration, we noted several positive aspects:

- The assessor has participated in the State-County Property Tax Administration Loan Program since March 1998, enabling him to reduce backlogs in various assessment programs.
- The assessor and his appraisal staff possess appraisers' certificates as required by section 670.
- The assessor has effective and thorough programs for assessment appeals and exemptions.

Several administrative components of the assessor's programs need improvement:

- The assessor's notice of proposed assessment, sent to owners of disaster-stricken property, does not contain the assessment appeal information required by section 170.
- The assessment roll lacks the escape assessment notation required by section 533.
- The assessor does not exempt low-value real property as required by county ordinance.
- The assessor incorrectly includes a penalty statement on a locally-developed form.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, supplemental assessments, California Land Conservation Act (CLCA) property, possessory interests, leasehold improvements, water company property, and mineral property. Other programs have areas where improvement is needed:

- The assessor fails to include all information on the list of public transfers required by section 408.1(c).
- When notifying taxpayers of declines in value, the assessor fails to include on the form all information required by sections 619(b).
- The assessor fails to correctly establish the base year value for all taxable government-owned property.

The assessor has effective programs for the audit of personal property, business equipment valuation, discovery of leased equipment, and the discovery and valuation of aircraft, vessels, and animals. Two areas that need improvement, however, are:

- The assessor accepts incomplete business property statements.
- In the assessment of manufactured homes, the assessor does not review the assessments of manufactured homes not located in mobilehome parks for declines in value and uses an incorrect edition of the recommended value guide.

Despite the problems noted above, we found that most properties and property types are assessed correctly. Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1: Include all information required by section 170(c) in the notice of proposed reassessment.11

RECOMMENDATION 2: Correctly identify escaped assessments on the current assessment roll as required by section 533.12

RECOMMENDATION 3: Exempt all real property that qualifies for the low-value property exemption, as required by the county resolution.....13

RECOMMENDATION 4: Comply with statutes providing for penalties and penalty statements on locally-developed forms.....16

RECOMMENDATION 5: Include the date of recordation on the list of transfers as required by section 408.1(c).....19

RECOMMENDATION 6: Include all information required by section 619(b) on the value change notice.21

RECOMMENDATION 7: Establish the proper base year value for all taxable government-owned property.25

RECOMMENDATION 8: Accept only complete business property statements.33

RECOMMENDATION 9: Annually assess all manufactured homes at the lesser of full cash value or factored base year value.36

RECOMMENDATION 10: Use the correct edition of the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide* when valuing manufactured homes.37

RESULTS OF 1999 SURVEY

Appraiser Certification

We recommended the assessor require all staff appraisers to maintain current training requirements. Since the BOE's Assessment Policy and Standards Division monitors the annual training required by section 670, we no longer review annual training requirements in our assessment practices survey.

Change in Ownership

We recommended the assessor penalize taxpayers for nonresponse to a *Change of Ownership Statement* (COS). The assessor no longer uses the BOE-502-AH, *Change of Ownership Statement*. Thus, this recommendation no longer applies.

Possessory Interests

We recommended that the assessor assess the cable television possessory interests in accordance with section 107.7. The assessor has implemented this recommendation.

Mining Property

We recommended that the assessor revise the mining property assessment program by (1) ensuring that the discount rates and the royalty incomes have the same inflation assumptions and (2) appraising all mining properties according to rule 469. The assessor has implemented both parts of this recommendation.

OVERVIEW OF MERCED COUNTY

Merced County lies in the heart of California's San Joaquin Valley, about 100 miles southeast of San Francisco and 275 miles north of Los Angeles. The county encompasses about 2,000 square miles. Merced County is bordered by the counties of Stanislaus to the north, Mariposa to the east, Madera and Fresno to the south, and San Benito and Santa Clara to the west. This agricultural county was chartered in 1856. Just after the Central Pacific Railroad constructed its lines down the San Joaquin Valley in 1872, the City of Merced was established as the county seat. Milk and milk products are the leading commodities, followed by cotton, almonds, sweet potatoes, and alfalfa. Currently, Merced County has a population of almost 240,000 and six incorporated cities: Atwater, Dos Palos, Gustine, Livingston, Los Banos, and Merced.

Assessed values in the county have continued to increase over the past five years, as exhibited in the following table:

ASSESSMENT ROLL	TOTAL ROLL VALUE	INCREASE
2002-03	\$10,855,474,437	7.01%
2001-02	\$10,144,644,947	4.64%
2000-01	\$9,694,799,373	6.31%
1999-00	\$9,119,753,318	5.00%
1998-99	\$8,685,546,350	

For the 2002-03 assessment roll, the assessor's workload included 63,788 secured units and 8,407 unsecured units, for a total of 72,195 assessments.

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, low-value property exemption, exemptions, and assessment forms.

Budget and Staffing

As shown in the following table, the assessor's office has benefited from increased budget levels over the last five years. PTAP funds are accounted for separately from the assessor's official budget:

FISCAL YEAR	GROSS BUDGET³	INCREASE	PERMANENT STAFF⁴	PTAP FUNDS RECEIVED⁵	PTAP STAFF
2002-03	\$2,325,720	9.67%	32	\$298,004	6
2001-02	\$2,120,730	6.58%	32	\$298,004	6
2000-01	\$1,989,794	13.06%	32	\$298,004	6
1999-00	\$1,759,981	1.07%	29	\$298,004	6
1998-99	\$1,741,328		29	\$298,004	6

Although the assessor's staff has increased over the last decade, it has not returned to the staffing level of 40 permanent positions that existed in the 1991-92 fiscal year. Presently, the number of employees totals 38 and includes 15 real property appraisers (including the assessor), 1 appraiser assistant, 7 auditor-appraisers, 4 mapping staff, and 11 support staff.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Loan Program (PTAP). This program provided state-funded loans to eligible counties for the improvement of property tax administration. 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. The Grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

³ County of Merced Budget Unit Financing Uses Detail. Budget dollars do not include PTAP funds.

⁴ The number of staff reported includes the assessor.

⁵ See State-County Property Tax Administration Program.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract (described in section 95.31). The PTAP loan was considered repaid if the county satisfied agreed-on performance criteria set forth in the contract. All contracts provided that the county 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 prevented a county from using PTAP funds to supplant the assessor's existing funding. In most cases, verification of county performance was provided to the State Department of Finance by the participating county's auditor-controller.

The Merced County Assessor's Office has been participating in the PTAP, commencing with the year beginning March 1, 1998, and ending February 28, 1999. The current contract covers the year March 1, 2002, to February 28, 2003. The county's required base funding and staffing levels for the assessor's office have been \$1,777,959 and 29 positions, respectively. As required by the program, these levels have been maintained. The Merced County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment for each year under contract.

The assessor used the annual loan amount of \$298,004 for the enhancement of various assessment programs, including the following:

- To prepare the defense for assessment appeals.
- To establish and maintain a nonmandatory audit program.
- To establish and maintain a program for the review of business and agricultural property statements requiring investigation for property tax equalization.
- To maintain the current low-value ordinance level at \$2,000.
- To reduce the backlog of decline-in-value assessments and establish a monitoring system.
- To establish and maintain a program for the field review of improved properties.
- To establish and maintain a program for the field review of mobile home parks and associated manufactured home assessments.

Over the duration of the program, funds have also been used for personnel (an appraiser, two auditor-appraisers, an appraisal assistant, two assessment clerks, and one-quarter clerk for the appeals board), aerial photographs, office supplies, and other expenses to meet the established program goals. All expenditures have been designed to increase the long-term productivity of the property tax assessment program.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are 22 certified appraisers in Merced

County Assessor's Office, of whom 13 hold advanced certificates. The appraisal staff consists of 15 appraisers, including the assessor, assistant assessor, and chief appraiser, along with seven auditor-appraisers (including the chief auditor-appraiser). Based on the most current BOE training and certification report and updated information obtained from the assessor, we found all appraisers possess the required certificates. The assessor does not employ any contract appraisers.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the assessment appeal process.

The appeals board in Merced County was established by Ordinance No. 829 dated April 19, 1977, and Resolution No. 77-173 dated September 27, 1977.⁶ The board consists of three members and no alternates. Each member is appointed by the board of supervisors to a three-year term. There are five to seven scheduled hearings each year.

Assessment appeals are filed with the appeals board clerk, who also schedules the hearings. After a review and validation, the clerk forwards a copy of the application to the assessor. Upon receipt at the assessor's office, the information on the application is verified, and the appeal is assigned to an appraiser, who then contacts the taxpayer.

If the taxpayer decides to withdraw the appeal or agrees to a stipulated value, the assessor sends a letter to the taxpayer for his or her signature. Upon receipt of a signed withdrawal or stipulation letter, the letter is forwarded to the assessment appeals board for approval. If no agreement can be reached, the appeal process continues and a hearing is scheduled. An appraiser and the chief appraiser represent the assessor at the hearing.

The following table illustrates the appeal workload over the last five years. About 14 percent of the appeals involved residential property, 15 percent personal property, 35 percent commercial and industrial property, and 36 percent rural property:

⁶ Ordinance No. 1101, dated March 8, 1983, amended Resolution No. 77-173; Ordinance No. 1360, dated March 25, 1991, amended Ordinance 1101; Ordinance No. 1611, dated September 1, 1998, supersedes Ordinance No. 1360.

APPEALS	FISCAL YEAR				
	2002-03	2001-02	2000-01	1999-00	1998-99
Total Filed	220	174	165	199	488
No. Carried Over	92	58	N/A	N/A	N/A
No. Withdrawn	34	32	117	99	269
No. No Shows	14	36	17	1	7
No. Stipulated	28	31	22	64	91
No. Heard					
No. Reduced	46	3	4	6	5
No. Upheld	6	14	5	29	116
No. Increased	0	0	0	0	0

The bulk of the appeals were either withdrawn by the taxpayer or denied because the taxpayer did not appear. None of the appeals were unresolved for more than two years, unless the taxpayer agreed to a waiver of the statutory time limit.

We found the assessor's appeal presentation to be clear and well documented. Overall, the assessor's portion of the assessment appeals program is well administered. The appraisers representing the assessor at the hearings are experienced and well prepared. We found no problems with the assessor's assessment appeals program.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property \$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 an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, 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 he may revalue the property on lien date.

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

The Merced County Board of Supervisors last updated the county's disaster relief ordinance on December 17, 2002. The ordinance grants the assessor the authority to initiate reassessment where he determines that within the preceding 12 months that taxable property was damaged or destroyed. With this authority, the assessor has taken a proactive stance and initiates reassessment promptly upon discovery of damaged properties and notifies the taxpayer of the proposed reassessment. The assessor no longer uses the application process.

The following table shows the number of disaster relief claims per year from 2001-02 to 2003-04. The number for the 2003-04 assessment roll reflects only a partial year's work:

ASSESSMENT ROLL	NO. OF CLAIMS PROCESSED
2003-04	36
2002-03	26
2001-02	42

We found that the assessor grants disaster relief in the proper manner, with the exception of the notification of proposed reassessment.

RECOMMENDATION 1: Include all information required by section 170(c) in the notice of proposed reassessment.

The assessor's notice of proposed reassessment does not contain the appeals information required by section 170(c). The assessor is currently using the *Notice of Supplemental Assessment (BOE-67-A)*, which references different filing deadlines than those appropriate for reassessments due to a calamity or disaster. Section 170(c) provides that the notice of proposed reassessment shall state that the applicant may appeal within six months of the date of the mailing of the notice. It is the assessor's responsibility to follow the law and provide the correct information on the notice.

We recommend that the assessor include all the information on the notice of proposed reassessment required by section 170(c).

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the roll may not be changed except as authorized by statute. 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 a five-year period. The figures for the 2003-04 assessment roll reflect only a partial year's work (July 1, 2002 to February 1, 2003):

ASSESSMENT ROLL	ROLL CHANGES
2003-04	2,642
2002-03	3,300
2001-02	3,200
2000-01	2,987
1999-00	3,068

In Merced County, the roll correction process starts with the appraiser or auditor-appraiser who discovers the escape or the needed correction. The assessor or assistant assessor reviews all roll corrections.

We found that roll corrections were made within the authorized period of time, and the *Notice of Proposed Escape Assessment* was mailed to taxpayers at least 10 days before the changes were entered on the roll. We also found compliance with statutory requirements except in the area of the required roll notation.

RECOMMENDATION 2: Correctly identify escaped assessments on the current assessment roll as required by section 533.

Escaped assessments are noted on the electronic copy of the assessment roll, but only the year of escape and the section number are recorded. The notation required for escaped assessments is absent.

Section 533 requires that the assessor enter an escaped assessment on the roll for the current assessment year. If the escape is for a prior roll, the entry on the current roll must state "Escaped assessment for year ____ pursuant to Sections ____ of the Revenue and Taxation Code." This notation provides notice of escaped assessments to the public.

The consequence of this omission is that an explicit statutory requirement for escaped assessments has not been met.

We recommend the assessor correctly identify escaped assessments on the current roll as required by section 533.

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 may 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 possessory interests. A board of supervisors must adopt a low-value 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 Merced County, the board of supervisors concluded that the low-value threshold for cost-effective assessments was \$2,000. As a result, Resolution No. 98-247 was passed and adopted by the board of supervisors on December 22, 1998, enacting a low-value property exemption for properties having an assessed value under \$2,000.

We found that the assessor does not apply the low-value property exemption to all eligible property.

RECOMMENDATION 3: Exempt all real property that qualifies for the low-value property exemption, as required by the county resolution.

We found that the assessor did not exempt from taxation real property with a value of less than \$2,000. These low-valued assessments were enrolled and forwarded to the auditor and tax collector. However, the properties qualify for the low-value property exemption. The assessor's practice is contrary to the county's low-value property exemption resolution, which provides that all property with a value of \$2,000 or less shall be exempt from property taxation.

We recommend that the assessor apply the low-value property exemption, as intended, and exempt all real property that qualifies for the low-value property exemption.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 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 also is 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. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors, not the BOE, administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The assessor processed 32 church exemption claims and 207 religious exemption claims for the 2002-03 assessment roll. The following table illustrates religious and church exemption data for the 1998-99 through 2002-03 assessment rolls:

ASSESSMENT ROLL	RELIGIOUS		CHURCH	
	Number	Exemption Value	Number	Exemption Value
2002-03	207	\$66,986,929	32	\$5,433,679
2001-02	235	\$74,028,454	25	\$3,705,199
2000-01	236	\$72,165,848	30	\$3,354,451
1999-00	236	\$69,381,595	25	\$2,968,919
1998-99	294	\$68,662,717	25	\$2,587,070

In Merced County, first-time claimants for the religious exemption file a *Religious Exemption Claim* (BOE-267-S), as required by section 257. Once an exemption is established, the assessor annually mails a *Religious Exemption Change in Eligibility or Termination Notice* (BOE-267-SNT). In 2002, the assessor generated a mass mailing of BOE-267-S claim forms to entities already receiving the exemption, for the purpose of collecting current information to confirm eligibility, make adjustments, or discontinue the exemption as appropriate. Overall, we found the assessor's religious exemption program to be well documented and properly administered.

As required by sections 255 and 256, claimants for the church exemption must file an annual claim. Field inspections were on file for eight of the 12 claims we reviewed. The exemption was appropriately limited to 85 or 90 percent for late filed claims. As with the religious exemption program, we found the assessor's church exemption program to be well documented and properly administered.

Welfare Exemption

The welfare exemption from local property taxes is available for the property of organizations formed and operated exclusively for qualifying purposes (religious, hospital, scientific, or charitable), which use its property exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is jointly administered by the BOE and county assessors. Effective January 1, 2004, the BOE is responsible for determining whether an organization itself is eligible for the welfare exemption, and issues Organizational Clearance Certificates to qualified nonprofit organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and approves or denies exemption claims without review by the BOE.

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

The following table shows welfare exemption data taken from the 1998-99 through 2002-03 assessment rolls. It is important to note that at the time the number and value for 2002-03 were provided, late-filed reports had not yet been processed:

ASSESSMENT ROLL	WELFARE	
	Number	Exemption Value
2002-03	51	\$15,752,323
2001-02	134	\$68,523,630
2000-01	66	\$58,606,628
1999-00	168	\$47,121,940
1998-99	161	\$53,612,515

We found that property uses were within the scope of the exemption, and that the assessor follows correct procedures in applying this exemption. Where there were multiple users, all had valid claims filed and approved.

Overall, we found no problems with the assessor's exemption program.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all property tax assessment forms. The BOE currently prescribes 74 forms for use by county assessors and one form for use by assessment appeals boards. Generally, the assessor has the option to change the appearance (e.g., size and color) of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form if prior approval is obtained from the BOE.

Assessors may also use locally developed forms and questionnaires. However, no penalty may be imposed upon a property owner for failure to file a locally developed form or questionnaire.

The BOE annually sends to assessors, checklists for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year; the checklists for property statements and miscellaneous forms must be returned by October 15, and the exemption forms checklist must be returned by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.

We found the following problem with forms used by the assessor.

Penalty Statements

RECOMMENDATION 4: Comply with statutes providing for penalties and penalty statements on locally-developed forms.

We found one locally-developed form (*Death of Real Property Owner – Change in Ownership Statement*) that inappropriately includes penalty statements.

The assessor's *Death of Real Property Owner – Change in Ownership Statement* includes a statement indicating that failure to file the form will result in the section 482.1 penalty. The assessor uses this form in place of the BOE-prescribed BOE-502-AH, *Change of Ownership Statement (COS)*. Reference to section 482.1 is inappropriate because the penalty applies to the failure to file the COS. Section 480 provides that when a change in ownership occurs the transferee shall file a signed COS (or signed *Preliminary Change of Ownership Report*, as required by section 480.3) with the county recorder or assessor. The COS filing requirement facilitates a means for obtaining more complete transfer information. The assessor should use the BOE-prescribed COS or delete the penalty language from his form.

We recommend that the assessor comply with statutes providing for penalties and penalty statements on locally-developed forms.

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 land subject to California Land Conservation Act contracts and taxable government-owned land.

Under article XIII A of the California Constitution, the taxable value of most real property may not exceed its full cash value as of the later of (1) the 1975 lien date or (2) the property's most recent change in ownership or completion of new construction. This ceiling on taxable value establishes the property's "base year value," which is subject to an annual inflation adjustment not to exceed two percent.

As of February 2003, the assessor's staff assigned to perform the duties of the real property program consisted of 14 employees, including 1 chief appraiser, 3 supervising appraisers, 9 appraisers, and 1 appraiser assistant. The staff, organized by geographic area, is also responsible for the assessment of manufactured homes – because manufactured homes are classified as personal property, this subject is discussed in the *Assessment of Personal Property and Fixtures* section of this report.

We reviewed the assessor's programs for changes in ownership, new construction, declines in value, supplemental assessments, and the assessment of the following: CLCA property, taxable government-owned property, possessory interests, leasehold improvements, water company property, mining and petroleum property, and pipeline rights-of-way.

Change in Ownership

Section 50 requires that the assessor establish a new base year value for real property upon a 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.

Document Processing

The assessor receives copies of all recorded documents daily from the recorder. The documents are sorted and only those that are relevant to property tax assessment are retained. Documents considered

relevant include those that may affect title to real property (e.g., deeds, sale or merger documents, trust documents, affidavits of death, and court documents) or those that may provide information for appraisers or auditor-appraisers (e.g., certificates of completion, financing documents, and bulk transfer documents). *Preliminary Change of Ownership Report's* (PCOR's) are also received daily from the recorder.

Recordation and appraisal data for the last three years are included in the following table:

ASSESSMENT ROLL	RECORDED DOCUMENTS	NUMBER REVIEWED	NUMBER OF REAPPRAISALS
2003-04	68,394	8,924	5,125
2002-03	58,969	9,756	5,674
2001-02	46,303	10,477	5,676

The mapping and title services division, consisting of a chief, one draftsman, and two title technicians, is responsible for verifying information on recorded documents, and determining whether the recorded document created a change in ownership. If the recorded document created a change in ownership, the recorded document, the PCOR, a computer-generated appraisal worksheet, a physical characteristic sheet, and the assessment record are packaged together and forwarded to the Valuation Division. The worksheet used for tracking partial interest transfers is simple, understandable, and clearly delineates how ownership is allocated.

The assessor's document processing program appears to be accurate and effective.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides additional detail about the application of section 64.

Since there is usually no recorded notice of the transfer of an interest in a legal entity, discovery of changes in ownership resulting from such transfers is often difficult.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, assessor's parcel numbers, or the number of parcels they own. Because of the lack of reliable data provided by the entities, the BOE's LEOP unit advises assessors to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly appraised.

When the LEOP listing is received from the BOE, the Mapping and Title Services Division reviews the list, identifies the parcels, and updates the computer system. We found that the assessor processes LEOP notices properly and promptly revalues parcels that have undergone a change of ownership.

Section 408.1 Transfer Lists

Pursuant to section 408.1, the assessor has a two-year transfer list that is available to the public for review at a charge of \$10. Information on the transfer list is updated quarterly as required by statute. No confidential information is inappropriately disclosed, but we found that certain required information is absent.

RECOMMENDATION 5: Include the date of recordation on the list of transfers as required by section 408.1(c).

We found that the transfer list did not include the date of the recordation, as required by section 408.1(c).

Section 408.1(a) requires the assessor to maintain a list of transfers that have occurred within the preceding two-year period. Section 408.1(c) sets forth the specific items of information that are mandatory for the list. The assessor's list does not include the date of recordation.

We recommend that the assessor include the date of recordation on the transfer list required by section 408.1.

Parent/Child Transfers

Section 63.1 excludes from the definition of change in ownership the purchase or transfer, on or after November 6, 1986, of a principal residence and the first \$1 million of other real property between parents and children, upon submission of a timely claim. Under narrow circumstances, the exclusion also applies to qualifying transfers between grandparents and grandchildren.

For the 2002-03 assessment roll, the assessor processed 762 claims under section 63.1. We found the assessor's procedures for handling these exclusions to be consistent with statutory requirements.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraisal involvement. In Merced County, the criteria are that the property be a single-family residence, that the sale be confirmed by a PCOR, and that the sale price falls within the market range. The residential supervising appraiser determines which sales qualify for direct enrollment and forwards the property file to an appraiser for a field inspection. Approximately 40 percent of all residential transfers are directly enrolled.

We found no problems with the assessor's direct enrollment program.

New Construction

Section 71 requires the assessor to determine new base year values for newly constructed real property upon the date of completion and to appraise new construction in progress on the lien date at its full value and on each lien date thereafter until the date of completion. Rule 463 governs the assessment of newly constructed property. Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, sets forth BOE-approved guidance.

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from eight permit-issuing agencies: the Merced County Health Department, the Merced County Building Department, the City of Merced Building Department, and the cities of Atwater, Livingston, Gustine, Los Banos, and Dos Palos. Permits are received on a monthly basis, with the exception of permits issued by the County Health Department, which are received annually. Other methods used to discover new construction include newspaper articles, business property statements, and field canvassing.

All building permits are reviewed by the chief appraiser, who determines if the permits are for assessable new construction or for nonassessable new construction such as replacement, repair, or maintenance (e.g., re-roofs, updating of electrical services, adding aluminum siding, and miscellaneous repairs). Building permits evidencing nonassessable work are documented on the building record before being discarded. Building permits evidencing assessable new construction are entered into the computer system, which creates appraisal worksheets for the appraisal crew.

Upon receipt of a worksheet involving new construction, appraisers determine if a questionnaire is appropriate. The level of response to questionnaires is estimated at 75 percent. When valuing residential new construction, the appraisers utilize costs from the Assessors' Handbook Section 531, *Residential Building Costs*, costs developed through local surveys, and comparable sales. For commercial new construction, the appraisers use costs from the *Marshall Valuation Service* and correlate the cost approach with at least one other approach to value, either the market or income approach. All appraisers attempt to acquire historical costs and compare them to the cost sources mentioned. If construction is only partially complete on the lien date, construction in progress is valued and enrolled. Once construction is complete, a final value is estimated and enrolled, and supplemental assessments are issued.

There is a high level of communication and coordination between the real property and business property divisions. Specially created forms accompanied by supporting documentation are used to ensure that all new construction is addressed.

We found the assessor's new construction program to be thorough and effective.

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 lesser 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. (Assessors' Handbook Section 501, *Basic Appraisal*, January 2002, page 140.)

The following table illustrates the decrease in the number of parcels annually reviewed for a decline in value, and the approximate value added as a result of improving market conditions:

ASSESSMENT ROLL	2003-04	2002-03	2001-02	2000-01	1999-00
Parcels Reviewed	2,105	3,153	3,604	3,882	4,116
Value Added	\$52,000,000	\$32,000,000	\$17,700,000	\$17,500,000	\$16,400,000

The number of decline-in-value assessments has decreased almost 50 percent over this five-year period and the annual value added due to reinstatement of the factored base year value has increased 217 percent. The properties remaining under decline-in-value review are spread throughout the county. Only about 300 of the properties are single-family residences. Each year, the assessor reviews all decline-in-value assessments.

In the past, the assessor issued press releases to inform taxpayers of the right to have their property values reviewed. Since property values are again increasing, the assessor now relies on his real property appraisers, in addition to taxpayer inquiries or complaints, to discover properties impacted by a decline in value.

A review of the assessor's procedures for processing decline-in-value assessments indicates that the assessor has a good decline-in-value program. However, there is a problem with the form the assessor uses for taxpayer notification.

RECOMMENDATION 6: Include all information required by section 619(b) on the value change notice.

We found that taxpayers are not informed of all options and rights when the assessed value of their property is changed due to a decline in value. The form used by the assessor for this purpose does not include all of the information required by section 619(b).

Section 619(b) provides that the information given by the assessor to the assessee must include an explanation of the stipulation procedure set forth in section 1607. This information is not included in the form sent to the taxpayer.

We recommend the assessor include all information required by section 619(b) in the form noticing the taxpayer of a change in assessed value.

Supplemental Assessments

Sections 75 et seq. require the assessor to issue an assessment (i.e., a supplemental assessment) to reflect any increase or decrease in assessed value resulting from a change in ownership or new construction. The additional property taxes from the supplemental assessment cover the portion of the fiscal year remaining after the date of change in ownership or completion of new construction.

We reviewed a number of supplemental assessments and property records associated with a change in ownership or new construction. The review included supplemental assessments issued on residential and commercial properties, tenant improvements, manufactured homes, possessory interests, and CLCA properties. All appeared to have been handled correctly. For events occurring on or after the lien date and on or before May 31, two supplemental assessments were enrolled. Automated proration calculations were correct and the supplemental assessments were issued timely. We found the assessor's supplemental assessment program to be accurate and in compliance with all applicable provisions of law.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act 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 ("Williamson Act") contracts with property owners.

Property owners in an agricultural preserve 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 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, the current market value, or the factored base year value, the restricted value is typically the lowest.

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

On July 25, 2000, the Merced County Board of Supervisors adopted Resolution Nos. 2000-136, 137, 138 and 139, establishing agricultural preserves and a CLCA program in Merced County. As of January 1, 2002, a total of 414,201 acres (3,072 parcels with a total assessed value of \$397,874,999) were encumbered by 829 contracts. Grazing land accounted for 176,430 acres. There were no parcels restricted under the Farmland Security Act (FSA), which is a more restrictive form of the CLCA contract, nor were there any wildlife habitat contracts. Compatible uses typical for the county include oil and gas leases, wireless communication tower sites, and hunting rights.

Although section 423(e) provides that nonliving improvements, which contribute to the income of the land, can be appraised as though restricted if the open-space contract contains such a provision,

Merced County's CLCA contract does not contain such a provision. Nonliving improvements are treated as unrestricted and separate appraisal units. Income and production questionnaires are mailed every two years to owners of parcels under contract. Because the program is relatively new, questionnaires have only been mailed out once. Grazing land is currently valued on a per-acre basis, but as questionnaires are received and a database is developed, the animal unit month (AUM) unit of comparison will also be considered for future valuations. All CLCA properties are assessed using a computer program that calculates the restricted value, market value, and factored base year value, and determines the lowest of the three values.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that "even though it might be highly unlikely or impossible for the unrestricted improvements to actually be bought and sold in the marketplace, the unrestricted improvements must be valued as though they were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite. We found that this is the assessor's policy and practice.

Income and Expenses—CLCA Properties

In general, with land subject to a CLCA contract, the income to be capitalized is the economic net income ("net return") attributable to the land based on agricultural use. To determine net income, the appraiser must estimate the future gross income ("gross return") that the land is expected to produce and subtract the allowable cash expenses ("net outgo") necessary to maintain this income. The gross income is primarily from agricultural use. However, it may also include income from compatible uses actually occurring, such as oil or gas exploration, communication facility sites, and recreational uses such as hunting or fishing. There is no legal limit upon the income to be capitalized unless the CLCA contract contains a provision establishing a minimum annual income per acre. Rental income is preferable to operating income when estimating the income to be capitalized.

The type of expenses deducted, and to some extent their amounts, depends upon the composition of the gross income. For example, a gross economic income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents; and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on and of the improvements that are necessary to produce the income.

In Merced County, income and expenses are estimated based on five-year income and production histories required by the assessor when the land was initially placed under contract. The data provided was analyzed, and economic rents, net of nonliving improvement charges (including irrigation well charges), were estimated for each parcel under contract. These rents are periodically updated as additional information is received on subsequent income and production questionnaires. Expense estimates for vacancy, management, and owner's insurance are then deducted to yield an estimated net

income. In addition, income from compatible uses, where known, is considered in the final value estimate.

We found no problems with the assessor's income and expense analyses.

Capitalization Rates

Section 423(b) provides specific guidance concerning the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization rate be the sum of the following components:

- An interest component annually provided by the BOE;
- A risk component based on the location and characteristics of the land, the crops grown thereon, and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials (other than timber) exceeds the yield from other typical crops grown in the area.

In Merced County, capitalization rates are developed in this manner.

Overall, we found that the assessor has an effective program for the assessment of CLCA properties.

Taxable Government-Owned Property

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.

Merced County has averaged about 36 taxable government-owned properties over recent years, with a total value of approximately \$3,300,000. The following table shows the number of taxable government-owned properties enrolled the last three years, and the projected number for the 2003-04 assessment roll:

ASSESSMENT ROLL	NO. OF TAXABLE GOVERNMENT-OWNED PARCELS
2003-04	34
2002-03	37
2001-02	36
2000-01	36

The mapping and title services division confirms that government-owned properties are located within or outside the agency's boundaries. If a parcel is determined to be outside the agency's boundaries and taxable, the parcel is identified as a taxable government-owned property by assigning it a special land use code (1919). Taxable government-owned properties are valued annually with the use of a worksheet that correlates the current market value, the restricted value, and the factored base year value. The lowest of the three values is enrolled.

Generally, we found the assessor is following the proper guidelines for the assessment of taxable government-owned properties. However, we did note one area in which procedures should be corrected in order to be in full compliance.

RECOMMENDATION 7: Establish the proper base year value for all taxable government-owned property.

The assessor does not properly establish the base year value for taxable government-owned properties; base year values were established at the lesser of the sale price or current fair market value as of the date of the sale.

In Letter To Assessors (LTA) 2000/037, dated June 15, 2000, the BOE provided revised guidance for the assessment of taxable government-owned properties. The new guidelines provide that the base year value of taxable government-owned properties acquired after March 1, 1975, is to be established at the lesser of current fair market value as of the date of change in ownership, or the restricted value which is the 1967 assessed value (for counties other than Inyo) multiplied by the appropriate Phillips Factor as of the date of change in ownership. The assessor was unaware of these revisions and did not include the restricted value in his calculation.

We recommend the assessor establish base year values for taxable government-owned properties in accordance with the provisions of LTA 2000/037.

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 284 taxable possessory interests on the 2002-03 assessment roll totaling \$54,518,473. These possessory interests are located on property owned by 51 public agencies. The largest group of possessory interests is located on the former Castle Air Force Base property.

To discover taxable possessory interests, the assessor reviews annual usage reports, building permits, and information from taxpayers. Annually, the assessor contacts government agencies that own property in Merced County requesting information on private usage. Typically, all but two or three of the 51 agencies respond. Information received from fairgrounds in Merced and Los Banos includes a listing of all tenants. The types of taxable possessory interests found in Merced County include uses at fairgrounds, public airports, on taxable government-owned land, and on redevelopment agency properties, as well as cable television franchises, grazing permits, and employee housing.

Valuation typically involves the use of contract rent to estimate income, deductions for vacancy and operating expenses chargeable to the public lessor, and the use of the contract term of possession. The total capitalization rate used includes the required elements, as appropriate.

We found the taxable possessory interest assessment program to be in compliance with statutory requirements.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee (AH 504, November 2002 edition, p. 92). 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 a period of time, they may add and 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, the *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 avoid escapes 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. Additionally, both divisions must agree on which items will be assessed by which division; otherwise escapes and/or double assessments may result.

Auditor-appraisers in the business property division examine the costs reported on Schedule B of the BPS, being particularly watchful for potentially assessable leasehold improvements. If structure costs are

reported, a copy of the Schedule B is forwarded to the real property division for analysis. A stamp is used on the original BPS to remind the auditor-appraiser that a follow-up with the real property division may be necessary. After the real property appraiser has reviewed the Schedule B and the appraisal files, the appraiser will provide written comments to the auditor-appraiser, setting forth how items reported on the Schedule B have been valued and to what assessor's parcel they have been assessed. In addition, real property appraisers provide auditor-appraisers with data on personal property items that they discover.

We reviewed business property statements and real property records. We checked for (1) reported costs and descriptions, (2) proper identification of leasehold improvements, (3) coordination between the business property division and the real property division to ensure proper assessment, and (4) proper assessment of leasehold improvements. We found that coordination between the real property and business property divisions was very good.

Water Company Property

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.

In Merced County, the 2002-03 assessment roll included one mutual water company, one water company regulated by the California Public Utilities Commission (CPUC), and numerous private water companies.

We found that the mapping and title services division and the business property division work closely to determine whether or not government-owned water system property is located within the agency's jurisdictional boundaries.

Additionally, we found the assessor diligently assembles information necessary for the valuation of mutual and regulated water company property. Articles of incorporation were obtained for the mutual water company. Property statements are sent annually to the mutual and regulated water companies, and the CPUC annual reports are obtained for the regulated water company. Upon receipt of these documents, the information is utilized for valuation purposes. For example, the data on the property statement and the CPUC report are used to develop both the historical cost approach and the income approach for the valuation of the regulated water company property.

Overall, we found the assessor applies proper procedures in the valuation of water company property.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are rule 468, Oil and Gas Producing Properties, rule 469, Mining Properties, and rule 473, Geothermal Properties. These

rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties, and are specific to mineral properties only.

Merced County has about 20 sand and gravel properties and several shut-in gas properties. The gas properties were not reviewed for this survey. The mineral properties are appraised by an auditor-appraiser with some assistance from the chief appraiser. Annually, BOE-prescribed property statements and production reports are sent to mineral property owners. Upon receipt, the reports are analyzed and estimated values are enrolled. The county's mining properties are generally appraised using the royalty method, as described in Assessors' Handbook Section 560, *Assessment of Mining Properties* (AH 560), pages 6-11.

Our prior survey report included a two-part recommendation regarding the mineral property assessment program. We recommended that the assessor (1) ensure that the discount rates and the royalty incomes have the same inflation assumptions; and (2) appraise all mining properties according to rule 469.

The assessor has implemented both parts of the recommendation. Inflation is treated consistently throughout the valuation analysis. Discount rates now appear to be on a real-rate basis (no inflation assumptions), and royalty rates are treated as flat over the life of the property. This is an acceptable appraisal practice and it will yield consistent values. The current market value of the appraisal unit is then compared with the adjusted base year value, and the lesser value is enrolled. In addition, the assessor has developed manual adjustments to the adjusted base year value to ensure compliance with rule 469.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42. The court ruled that while the pipelines themselves are properly assessed by the BOE, 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, governing the valuation of intercounty pipeline lands and rights-of-way.

There are six pipeline owners with intercounty rights-of-way in the County of Merced. The rights-of-way total almost 155 miles in length and have a total assessed value of \$2,338,359. Valuation of the rights-of-way was conducted using appraisal methodology found to be in accordance with sections 401.8 through 401.12. We found no problems with this program.

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.

As of February 2003, the assessor's staff assigned to the business property program consisted of eight positions: one chief auditor-appraiser, one supervising auditor-appraiser, five auditor-appraisers, and one real property appraiser. The real property appraiser works in conjunction with the auditor-appraisers to ensure the correct classification and allocation of real and personal property items assessed to businesses. This staffing mix maximizes the coordination of real property and business property assessments.

In this section of the survey report, we review the assessor's audit, business property statement processing, business property valuation, and leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

Audit Program

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

The following table shows the total number of audits completed over the last five years:

ASSESSMENT ROLL	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2003-04	119	76	43	\$12,559,848*
2002-03	102	62	40	\$64,565,148
2001-02	141	91	50	\$45,246,324
2000-01	124	76	48	\$40,159,704
1999-00	111	70	41	\$32,471,316

*In progress

We reviewed a number of audits and found working papers, cross-referencing, and audit lists detailing issues considered and records examined, all appear to be in order and well documented. In our prior survey, we noted that the assessor had implemented an *Audit Status Report* to track the progress of each audit. This report remains an integral part of all audits and contributes to the timeliness of the audit program.

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.

The assessor has a total workload of 242 mandatory audit accounts, or an average of about 61 audits per year. We found that the mandatory audits were completed timely.

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 selects nonmandatory audits from a pool of accounts developed by the auditor-appraisers during the processing of property statements. The assessor's ability to maintain a nonmandatory audit program and perform prior-year assessment reviews has been assisted, in part, by the existence of the two auditor-appraiser positions funded by the PTAP.

The workload for the 2003-04 assessment roll includes 43 nonmandatory audits, in addition to approximately 50 prior-year assessment reviews. Over the past five years, the assessor performed 222 nonmandatory audits.

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor's mandatory audit program is current and no waivers have been necessary for a number of years. Overall, we found the audit program to be well run.

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.

In Merced County, only BOE-prescribed property statements are used. For the 2002-03 roll, a total of 8,247 business property statements were processed. Approximately 40 percent of the statements were for agricultural properties. In an effort to bring assessment records current, the assessor has placed special emphasis on agricultural operations since 1998. Following is a summary of business property statement activity:

TYPE	NUMBER
General Business	3,024
Agricultural	3,318
Apartments	1,328
Financial	43
Leased Equipment	438
Service Stations	96
Total	8,247

Discovery

The timely discovery of taxable property is one of the basic functions of the assessor. It is a never-ending process and demanding task to maintain accurate, up-to-date listings of business properties. Therefore, it is imperative that an efficient and effective discovery program is in place.

The assessor uses information from sales tax permits, business licenses, field canvassing, and landlord reports on tenants to discover taxable property. The assessor also uses the *Schedule of Leased Equipment* (BOE-600-B) which reports leased equipment used by public utilities and railroads that is not assessed by the BOE. As time permits, the assessor also reviews telephone book business listings.

We found no problems with the assessor's program for the discovery of taxable personal property and fixtures. Coordination between the real and business property divisions adequately addresses the discovery and assessment of any taxable property, including personal property discovered by a real property appraiser, or real property discovered by an auditor-appraiser. In fact, the assessor has assigned a real property appraiser to the business property division to assist in total property appraisal.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

In fiscal year 2002-03, there were 1,086 accounts in the direct billing program. The assessor established the following guidelines for the determination of accounts eligible to participate in the program (1) the assessed value must be less than \$10,000; (2) the account must be stable, with few changes in equipment costs from year to year; and (3) business property statement filing must have been consistent for the prior four years. Overall, the assessor has a good direct billing program.

Processing Procedures

We reviewed the assessor's procedures and practices for the processing of property statements. Many aspects of the program are correct and efficient. Taxpayers are allowed to submit attachments in lieu of completing the statements as long as the original statement is signed and attached. Duplicate statements are returned to the taxpayer. The assessor enforces the requirement for the filing of property statements by nonprofit organizations, as well as owners of aircraft and vessels costing more than \$100,000. Written authorization for agents to sign property statements on behalf of the property owner is retained in the account folder. The section 463 penalty is correctly applied to all late and nonfiled business property statements. Overall, the assessor appears to be correctly processing property statements, with one exception.

RECOMMENDATION 8: Accept only complete business property statements.

Although it is the policy of the assessor to return incomplete statements, we found several statements where Part 1, General Information, was not complete. This section contains questions that alert the assessor to possible changes in ownership, new leasehold improvements, remodeling, or a taxpayer's change in location.

The questions in Part 1 provide information that is important for property identification and assessment. Data submitted on the business property statement serves as the basis for the subsequent business property assessments. Whenever the statement is incomplete, the assessor should make a copy of the original statement and return the original to the taxpayer requesting completion.

We recommend the assessor accept only those property statements that are complete.

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

In our prior survey report, we noted that the assessor was valuing older machinery and equipment using a minimum percent good factor of 25 percent, which was contrary to AH 581 guidelines. As a result, we suggested the assessor follow the percent good factors found in the AH 581 or conduct a study supporting more appropriate factors when valuing older machinery and equipment.

In Merced County, when an audit indicates that a business or group of businesses has machinery and equipment with a substantially longer life than indicated in AH 581, the assessor conducts an in-use study. The study includes a review of the equipment still in use, along with its date of purchase, in order to establish a verifiable life and a reasonable value that are based on documented data. This is a reasonable and cost-effective method of establishing verifiable lives and depreciation for the machinery maintained by such companies. We found no problems with the percent good factors developed by this study.

We found the assessor does a complete and effective job in assessing machinery and equipment.

Computer Valuation

Also pursuant to section 401.5, the BOE issues valuation factors for computer equipment (see AH 581, "Table 6: Computer Valuation Factors").

The assessor follows the guidelines in AH 581 when valuing small, midrange, and large computers.

Apartment Personal Property

Although few apartments in Merced County are furnished, the assessor is careful to separate personal property from real property when valuing apartments. When an apartment property sells, a field inspection is done and a checklist is used to inventory the personal property included in the sale. The most recent *Apartment House Property Statement* (BOE-571-R) for the property is also reviewed. Values for apartment personal property are estimated based on taxpayers' reported values and the field inspection. The taxpayer is contacted if additional information is needed.

We found no problems with the assessor's program for the assessment of apartment personal property.

Classification

Machinery and equipment must be classified either as personal property or as fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely.

The assessor considers size, weight, and attachment to the foundation as well as the owner's intentions in relation to the machinery or equipment when classifying the items. Additionally, the real property and business property divisions work together to ensure all machinery and equipment is enrolled and that no property is enrolled twice. Items classified as fixtures are assessed at the lesser of full value or factored base year value. Service station equipment is correctly classified as fixtures.

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 Merced County, the discovery of leased equipment is done by one or more of the following methods (1) review of assets disclosed on the BPS submitted by both lessors and lessees; (2) telephone discussions with lessors and lessees; (3) audits; and (4) fieldwork. Relevant data such as the owner's name, address, date of acquisition, cost, situs of equipment, and other pertinent information is collected.

Business property statements are sent to all known lessors, and information received is reconciled with that gleaned from other sources. As this data is inputted into the assessor's computer system, a database for monitoring potential mandatory audits is also developed.

Business property statements from leasing companies are processed before property statements from other types of business in order to account for any items that went off-lease during the year. If the lessee is shown to have retained a particular asset, then a copy of the lessor's statement is copied and placed in the lessee's file.

Each year the assessor conducts a market survey to gain the current cost information pertaining to liquid petroleum gas (LPG) tanks. Cost information is collected on tank sizes varying from 100 to 1,000 gallons. Depreciation estimates are also requested from each tank leasing company interviewed. Once the data is obtained, it is analyzed and used for valuation purposes.

We found that the assessor is doing a good job in the discovery, processing, tracking, and assessing of leased equipment.

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.

As of January 1, 2003, there were 3,168 manufactured homes in Merced County. About 45 percent of the homes were located in 34 mobilehome parks. The rest of the homes were located primarily on rural sites. Since the 1998-99 assessment roll, the number of manufactured homes on the assessment roll has increased about 30 percent. Nevertheless, manufactured homes represent less than 0.7 percent of the total assessment roll.

As a discovery tool, the assessor initiated a canvassing program for mobilehome parks since our last survey. This program was supported with PTAP funds. A total of 675 manufactured homes have been field reviewed and the property records have been updated. Homes found to have been removed from a park were deleted from the roll. This explains the leveling in the number of manufactured homes between the 2000-01 and 2001-02 rolls, as shown in the following table:

ASSESSMENT ROLL	NUMBER OF MANUFACTURED HOMES	ASSESSED VALUE
2002-03	3,135	\$73,173,987
2001-02	3,005	\$72,526,759
2000-01	3,006	\$72,657,692
1999-00	2,607	\$62,158,368
1998-99	2,424	\$57,732,427

In Merced County, the real property appraiser assigned to the geographical area in which the home is located values the manufactured home. Sales prices, local cost data, and the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide* (NADA) are considered during the valuation analysis. Site influence is accounted for by considering local cost data and the value indicated by NADA before enrolling the manufactured home on the secured roll as personal property. When applicable, supplemental assessments are processed.

We found two areas where the assessor's manufactured home assessment program should be improved.

RECOMMENDATION 9: Annually assess all manufactured homes at the lesser of full cash value or factored base year value.

While the assessor has recently reviewed the assessments of manufactured homes located in mobilehome parks, he has not periodically reviewed the assessments of manufactured homes on a rented site, but not in a mobilehome park, or on land owned by the owner of the manufactured home. We found examples where the assessed values of manufactured homes had remained flat over several years.

Section 5813 provides that the taxable value of a manufactured home should be the lowest of (1) its factored base year value; (2) its full cash value as of the lien date, considering reductions in value due to damage, destruction, depreciation or other factors causing a decline in value; or (3) if the manufactured home is damaged or destroyed by a disaster or calamity, its full cash value in its damaged condition shall be its base year value until the home is restored or repaired or a new base year is established. Since manufactured homes typically decline in value each year, as evidenced by NADA, the assessor's practice results in overassessments, in years subsequent to the initial assessment.

We recommend the assessor annually assess all manufactured homes at the lesser of full cash value as of the lien date, or factored base year value.

RECOMMENDATION 10: Use the correct edition of the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide* when valuing manufactured homes.

We found that when manufactured homes are reappraised, the edition of the value guide used to estimate the value of the manufactured home was not always the correct edition. In conformance with section 5803, the assessor considers the NADA as a value indicator when revaluing manufactured homes due to a change in ownership. However, the correct edition of the guide is not always selected for the valuation. For example, we reviewed a manufactured home that transferred in November 2000 and the NADA used was the September through December 2001 edition. The base year value estimate should reflect the value of the manufactured home as of the date of the change in ownership. The NADA reflects the typical depreciation exhibited by manufactured homes. By using a later edition, the assessor unintentionally time-adjusts the value estimate.

We recommend the assessor use the correct edition of the NADA when valuing 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 (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2002-03 assessment roll, the assessor enrolled 209 general aircraft with a total assessed value of \$14,898,743.

The assessor uses the following sources to discover aircraft (1) a listing from the Federal Aviation Agency (FAA); (2) airport managers' reports from the City of Gustine, City of Los Banos, City of Merced, County of Merced, Turlock Regional Aviation, and Castle Airport; (3) contact with other counties; and (4) discussions with aircraft owners.

The assessor primarily uses the *Aircraft Bluebook Price Digest* for appraising general aircraft, in either the compact disk or book format. This value guide provides for adjustments due to engine hours, extra equipment, and general aircraft condition. It can be used to estimate both retail and wholesale values. A worksheet can be printed or saved electronically. Published sources, such as *Trade-a-Plane* and discussions with aircraft owners are also considered.

We found no problems with the general aircraft assessment program, except for the inappropriate use of a penalty statement on a locally-developed form (see discussion of Assessment Forms).

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

There is only one certificated aircraft in Merced County. The assessed value, on the 2002-03 assessment roll, was \$2,200,000. The aircraft was valued using methodology that was appropriate and consistent with statutes. We have no recommendations regarding certificated aircraft.

Historical Aircraft

Aircraft of historical significance can be exempted 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 thirty-five dollars (\$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.

There were 18 historical aircraft enrolled on the 2002-03 assessment roll, with a total assessed value of \$1,975,600. Upon receipt of the affidavit, the assessor reviews the application for completeness and collects the one-time \$35 application fee due with an initial filing. The assessor verifies the public-display requirement by attending air shows, and by the review of advertisements for air shows, aircraft logbooks, and air show attendance records. We reviewed the filings and declarations of historical aircraft claimants and found no problems with the administration of the historical aircraft exemption.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

The following table shows the assessor's vessel data for the last five years:

ASSESSMENT ROLL	PLEASURE VESSELS	
	NUMBER	ASSESSED VALUE
2002-03	1,949	\$15,203,749
2001-02	1,776	\$17,301,653
2000-01	1,766	\$11,444,970
1999-00	1,602	\$10,377,160
1998-99	1,570	\$10,034,550

For the valuation of vessels, the assessor uses the *ABOS New Boat & Motor Price Guide Blue Book* to estimate values for vessels and outboard motors based on the manufacturer, model, and year of production. In conjunction with this value guide, consideration is also given to declarations of value provided by taxpayers.

We found that the assessor has an effective vessel assessment program.

Animals

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

The assessor has 32 active animal accounts, of which 30 are secured and two are unsecured. There are 30 show horse and pack animal accounts, 1 llama account, and 1 ostrich account.

Show horses are one of a few types of animals subject to property taxation. Show horses (and other nonexempt horses) are assessed in the same manner as any other personal property. The assessor annually sends a *Registered and Show Horse Statement (BOE-571-F2)* to the owners of taxable show horses. We reviewed the procedures for assessing taxable show horses and found that the program is being administered correctly.

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

APPENDICES

A. County Property Tax Division Survey Group

Merced County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Sally Boeck

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Jody Henning

Associate Property Appraiser

Ken King

Associate Property Appraiser

Robert Rossi

Associate Property Appraiser

David Barbeiro

Associate Property Auditor-Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

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 also 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 BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation 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.



COUNTY ASSESSOR

David A. Cardella
Assessor

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

Equal Opportunity Employer

March 5, 2004

Mickie Stuckey
Chief, County Property Tax Division
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0062

Re: Response to Findings and Recommendations
Merced County Assessment Practices Survey

Dear Ms. Stuckey,

We appreciate the opportunity, pursuant to Government Code 15645, to respond to the recommendations in the State Board of Equalization's recent survey of our office. We request that the responsive remarks on the following pages be incorporated in the final version of the survey report.

We would like to acknowledge the Board's survey team members. They conducted their business with consideration, professionalism and diligence. There was minimal intrusion in our daily operations and they were a pleasure to work with. We understand the difficulty of the task before them and, although we view certain issues and topics differently, we found the team reasonable and willing to consider our views in discussion.

The past few years have been a challenging time for county government and Merced County has experienced the same fiscal difficulties as the remainder of the state. During these years, the Assessor's Office has enjoyed the support of both our County Executive Office and our Board of Supervisors. I would like to extend my appreciation for their confidence in our abilities and their cooperation, without which we could not maintain the excellent standards addressed in this Assessment Practices Survey.

Overall, I consider the survey report a testimony to the quantity and quality of work performed by the staff in this office. While facing continual budget problems and an ever increasing workload, the dedication to excellence of my staff is unwavering. I extend to them my grateful appreciation for their individual contributions, mutual cooperation and daily commitment to the high level of public service they maintain.

Best regards,

/s/ David A. Cardella

DAVID A. CARDELLA
Merced County Assessor

Enclosure

DAC/mmp

MERCED COUNTY
ASSESSMENT PRACTICES SURVEY
MARCH 2004

RECOMMENDATIONS & RESPONSES

RECOMMENDATION 1: Include all information required by section 170(c) in the notice of proposed reassessment.

RESPONSE:

We concur and have complied.

RECOMMENDATION 2: Correctly identify escaped assessments on the current assessment roll as required by section 533.

RESPONSE:

Both Board staff and assessors essentially agree that the Section 533 notice requirement is an archaic provision, as it was originally intended for a hard-copy version of the assessment roll. At that time the assessor used a rubber stamp to place the caption required on the roll where appropriate. Today the assessment roll is produced in an electronic format and more information than ever before is available to the public. Any assessment that has been changed is identified on the public screen with a roll correction number. The public can access all information concerning that change by selecting "Assessor Roll Correction Inquiry". Available to the public is the assessor's roll correction worksheet, California Revenue and Taxation Code sections relevant to that change, assessment roll values before and after the correction and the assessor's comments explaining the circumstances surrounding that change. While the letter of the law, pursuant to Section 533 may not be met, clearly we have complied with the spirit of the code section and no information concerning escaped assessments has been withheld from the public.

RECOMMENDATION 3: Exempt all real property that qualifies for the low-value property exemption, as required by the county resolution.

RESPONSE:

Real property qualifying for the low-value exemption remained on the assessment roll for tracking purposes only. Because of their low value, no tax bill was issued to the property owner. Effective June 2003, we have the ability to eliminate the low value assessments from the roll while continuing to track their base year values. We will comply with this recommendation.

RECOMMENDATION 4: Comply with statutes providing for penalties and penalty statements on locally-developed forms.

RESPONSE:

We concur and have complied. We would like to note that although the penalty statement was included for “encouragement” purposes, no property owner has ever been penalized for failure to return a locally developed form.

RECOMMENDATION 5: Include the date of recordation on the list of transfers as required by section 408.1(c).

RESPONSE:

We concur and have complied.

RECOMMENDATION 6: Include all information required by section 619(b) on the value change notice.

RESPONSE:

We concur and have complied.

RECOMMENDATION 7: Establish the proper base year value for all taxable government-owned property.

RESPONSE:

We have complied even though there is some concern that BOE guidelines on this issue are in conflict with California Revenue and Taxation Code Section 110.1(a)(2)(A).

RECOMMENDATION 8: Accept only complete business property statements.

RESPONSE:

While we agree in theory, shrinking budgets and increased workloads make it impossible and even fiscally irresponsible to return *all* statements where Part I is not fully completed. Fortunately, there are other assessment procedures that alert staff to possible changes in ownership, property owner’s changes in location, remodeling and new leasehold improvements. As noted in the survey, we do return statements when insufficient information exists to make an assessment or when the signatory is not authorized. We will continue to make responsible judgments concerning this issue.

RECOMMENDATION 9: Annually assess all manufactured homes at the lesser of full cash value or factored base year value.

RESPONSE:

In recent years we've had a program where manufactured homes were scheduled for field appraisal on a periodic basis, with the goal of a review every three years. We consider this program effective given the minimal value changes on this type of property in our county. Currently we are in the process of developing a computer program that will allow us to comply with this specific recommendation using minimum staff time.

RECOMMENDATION 10: Use the correct edition of the National Automobile Dealer Association's *Manufactured Housing Appraisal Guide* when valuing manufactured homes.

RESPONSE:

We concur and have complied.