MONTEREY COUNTY ASSESSMENT PRACTICES SURVEY

MAY 2008

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May 7, 2008

No. 2008/031

TO COUNTY ASSESSORS:

MONTEREY COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Honorable Stephen L. Vagnini, Monterey County Assessor-Clerk-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, the State Legislature, and the Monterey County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from March through April 2007. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board's findings in its current survey of the Monterey County Assessor-Clerk-Recorder's Office.[1]

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, and the Senate and Assembly; and to the Monterey 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 Stephen L. Vagnini, Monterey County Assessor-Clerk-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

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

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.[3]

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

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

EXECUTIVE SUMMARY

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

The Monterey County Assessor has made a major commitment towards improving interdepartmental communication and technology since our 2003 survey. As discussed below, this effort has resulted in efficiencies in assessment services and cost savings.

Interdepartmental Communication

As the assessor-clerk-recorder, the assessor implemented an interface program with the recorder's side of his office. This program makes recorded documents accessible for the assessor's staff to review and identify for his system.

The assessor established a shared database with the county planning department and the county building services department. Having a shared database reduces data entry requirements and corrections, eliminates dropped permits, and coordinates addressing and ownership for both departments.

In addition, the assessor established partnerships with the county water resources agency and public works department, incorporated cities, and local agencies to share data, eliminate redundancies, and improve data validity. Finally, he embarked upon an ambitious imaging program, participating in a countywide imaging enterprise.

Technological Advances and Investments

The assessor improved file archiving and retrieval, workflow, and taxpayer service through technological investments. These investments realized cost savings and improved customer service. The following are examples of such accomplishments:

- Expanded assessor's information on the Internet.
- Made assessors' maps available to staff on their desktop computers.
- Invested in digital cameras and made considerable effort to photograph all real property. (Over 24,000 photos have been stored and linked to the database.)
- Upgraded computer systems to a high-speed network.
- Consolidated disparate databases into a single data repository for data sharing.
- Implemented imaging of taxpayer correspondence and exclusion claims, township maps, and workflow management.

- Made township maps available to the public in CD format.
- Converted assessments of Williamson Act properties to an offline database, allowing staff to more accurately track changes in agricultural uses, especially vineyards.
- Expanded the use of an electronic drawing tool to identify all new construction.
- Captured over 80,000 property characteristics in an electronic format.
- Participated with other assessors in the Standard Data Record program, which allows a taxpayer to file once for all properties owned in the state.
- Implemented E-Filing to enable businesses to file property statements electronically.

In our 2003 survey, we made 20 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 15 of the recommended changes and partially implemented two. The recommendations that were not implemented, or implemented only in part, are repeated in this report.

We found no significant assessment problems as defined in Rule 371. Since Monterey County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Monterey County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Grant exemption to low-income housing property owned and operated by a limited partnership only when it holds a valid Board-issued SCC. 15

RECOMMENDATION 2: Improve the California Land Conservation Act (CLCA) program by: (1) using current well replacement costs when deriving a charge for recapture, and (2) using the correct land charge when valuing living improvements on CLCA properties. 25

RECOMMENDATION 3: Establish base year values for taxable government-owned properties according to Board guidelines. 26

RECOMMENDATION 4: Improve the taxable possessory interest program by: (1) assessing all taxable possessory interests, and (2) reappraising taxable possessory interests pursuant to Rule 21. 27

RECOMMENDATION 5: Properly classify leasehold improvements. 30

RECOMMENDATION 6: Determine declines in value based on the full appraisal unit of mineral properties according to Rule 469(e)(2)(C). 33

RECOMMENDATION 7: Timely audit the books and records of professions, trades, and businesses pursuant to section 469. 35

RECOMMENDATION 8: Send owners of vessels having an aggregate cost of $100,000 or more a *Vessel Property Statement*.....42

RESULTS OF 2003 SURVEY

Standards and Quality Control

We recommended the assessor develop and maintain a policies and procedures manual. This recommendation has been implemented.

Assessment Forms

We recommended the assessor use current Board-prescribed forms. This recommendation has been implemented.

Disaster Relief

We recommended the assessor obtain fire reports from all local fire departments to aid in discovering property eligible for disaster relief. The assessor implemented this recommendation by improving his discovery procedures and periodically contacting fire agencies that fail to supply requested reports.

Racehorse Administrative Tax

We recommended the assessor request that the county tax collector forward the assessor's copy of the annual racehorse tax returns pursuant to Rule 1045(b). This recommendation has been implemented.

California Land Conservation Act (CLCA) Properties

We recommended the assessor: (1) classify fixed irrigation pumps, fixed booster pumps, and in-ground irrigation systems as improvements; (2) deduct a capital replacement allowance for irrigation wells when appraising land restricted under CLCA contracts; (3) use the correct land charge when valuing living improvements on CLCA properties; and (4) deduct an appropriate charge for income generated by irrigation improvements when calculating CLCA land values.

The assessor now classifies pumps and irrigation systems as improvements and deducts a capital replacement allowance for irrigation wells when appraising land restricted under CLCA contracts. However, he is not using the correct land charge when valuing living improvements on CLCA properties, and he fails to deduct a capital allowance for irrigation wells from the gross income applicable to land. This recommendation is repeated in this survey.

Taxable Government-Owned Properties

We recommended the assessor review properties owned by local government agencies to determine their taxability. The assessor improved his procedures and implemented this recommendation.

Taxable Possessory Interests

We recommended the assessor properly develop taxable possessory interest capitalization rates. The assessor implemented this recommendation.

Leasehold Improvements

We recommended the assessor properly classify leasehold improvements. This recommendation has not been implemented; it is repeated in this survey.

Water Company Properties

We recommended the assessor review all water company properties for potential double assessments. In our current review, we did not find any instances of double assessments. Therefore, we consider this recommendation to be fully implemented.

Mining Properties

We recommended the assessor: (1) assess all mineral properties in a manner consistent with Rule 469(e)(1)(B), (2) return to taxpayers incomplete mineral property statements, and (3) apply penalties pursuant to section 463 for late-filed or non-filed annual property statements and production reports.

We believe the assessor is currently following Rule 469(e)(1)(B), and thus, we do not repeat this recommendation in the current survey. In addition, he has implemented the other recommendations pertaining to mining properties.

Audit Program

We recommended the assessor: (1) bring the mandatory audit program to current status, (2) seek waivers of the statute of limitations when audits will not be completed timely, and (3) use an audit checklist for every audit. The assessor has implemented the second and third recommendations. However, while the assessor is addressing the mandatory audit backlog, the program continues to be in arrears; accordingly, this recommendation is repeated in this survey.

Machinery and Equipment Valuation

We recommended the assessor: (1) use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors,* as intended when valuing older machinery and equipment; and (2) correctly identify and assess construction machinery and equipment. Both recommendations have been implemented.

OVERVIEW OF MONTEREY COUNTY

Chartered in 1850, Monterey County is governed by a five-member board of supervisors. Monterey County has a population of about 400,000 and encompasses 2,126,040 acres and a water area of 287,460 acres. Monterey County is bounded by the Pacific Ocean on the west; Santa Cruz County on the north; San Benito, Fresno, and Kings Counties on the east; and San Luis Obispo County on the south. Monterey County has 12 incorporated cities: Carmel, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Pacific Grove, Sand City, Seaside, Soledad, and the county seat of Salinas. The two biggest industries in Monterey County are agriculture and tourism.

The following table displays information pertinent to the 2006-07 assessment roll:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	104,020	
	Commercial	5,900	
	Rural	8,251	
	Other	6,355	
	Total Secured	124,526	$44,532,788,840
Unsecured Roll	Personal Property & Fixtures	21,688	$1,900,187,301
	Total Assessment Roll	146,214	$46,432,976,141

The next table illustrates the growth in assessed values from recent years as reported in the Board annual report:[4]

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2006-07	$46,687,565,000	11.7%	12.3%
2005-06	$41,780,963,000	11.1%	11.1%
2004-05	$37,614,422,000	8.3%	8.3%
2003-04	$34,731,245,000	N/A	N/A

[4] State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

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

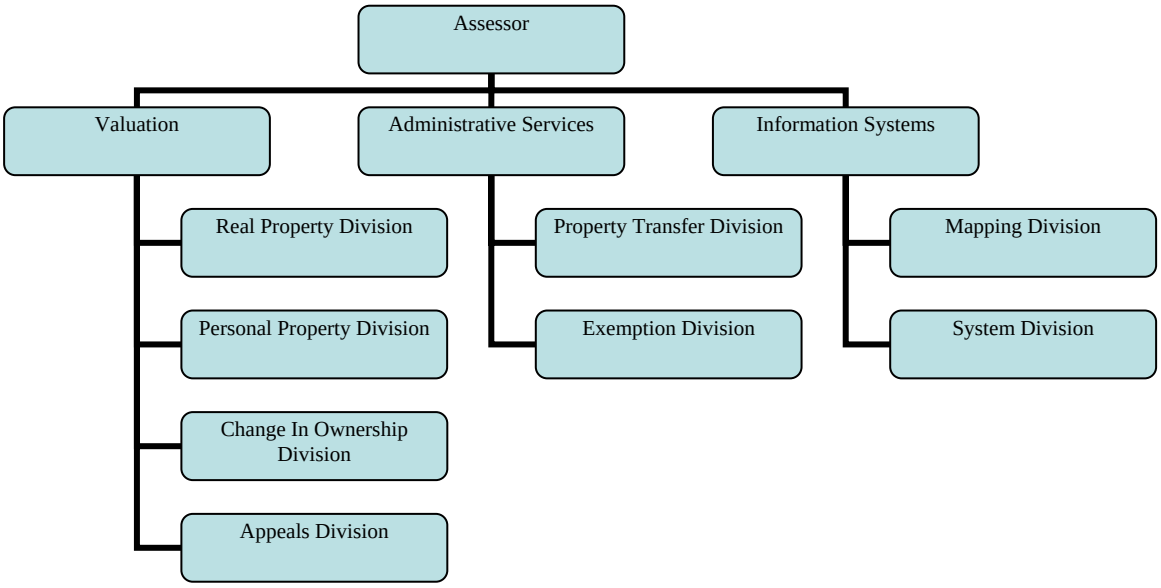
The Monterey County Assessor has instituted improved procedures since our 2003 survey. Administratively, the assessor has implemented a new workflow program wherein recorded deeds are transferred electronically from the recorder's staff to the property transfer clerks in the assessor's office, resulting in the elimination of backlogs and timely issuance of supplemental bills.

Budget and Staffing

As shown in the following table, the assessor's office has benefited from increased budget levels from 2003-04 to 2006-07. Funds from the State-County Property Tax Administration Program are included in the assessor's official budget, but are separate from the gross budget.

BUDGET YEAR	GROSS BUDGET	CHANGES	PERMANENT STAFF
2006-07	$3,971,654	12.88%	58
2005-06	$3,518,412	6.44%	57
2004-05	$3,305,467	-5.96%	57
2003-04	$3,514,853	N/A	56

Staffing levels have remained relatively constant over recent years. The assessor's office is organized as follows:



Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are a total of 27 certified appraisers on staff, of which 13 hold advanced certification. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

The assessor employs a mentoring program whereby new appraisers are mentored by journeymen appraisers. New appraisers receive instruction on the Revenue and Taxation Code, policies and procedures, and appraisal principles. Journeymen appraisers review the work of the new appraisers, provide feedback, and monitor their progress.

We reviewed the assessor's training records and found that the he has a good monitoring and tracking program for appraiser development. We have no recommendations for the assessor's appraiser certification program.

Assessment Appeals

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

In Monterey County, the assessment appeals board (AAB) consists of three members and two alternate members, appointed by the board of supervisors for a term of three years. The clerk of

the AAB is responsible for providing applications for changed assessment to the public, receiving the returned applications, and providing copies of the applications to the assessor. The AAB schedules hearings as needed to resolve appeals.

Once the assessor receives a copy of an application, he reviews his appraisal and contacts the taxpayer in an attempt to resolve the disagreement. If no agreement can be reached, the appeal process continues and a hearing is scheduled. The assistant assessor prepares and presents all real property appeals before the board. If an appeal involves business property, the auditor-appraiser responsible for the valuation prepares the appeal and accompanies the assistant assessor to the hearing.

The clerk of the AAB tracks the progress of assessment appeals. Using an independent database, the assessor also tracks the status of each appeal. This database is especially useful for ensuring that appeals are resolved in a timely manner. No appeal in the last five years has gone unresolved for more than two years.

The following table illustrates the assessment appeals workload for recent years:

APPEALS	2006-07	2005-06	2004-05	2003-04
Total Appeals Workload:				
Applications Received	211	392	169	208
Carried Over	217	80	129	71
Total	**428**	**472**	**298**	**279**
Resolution:				
Withdrawn	229	212	141	109
Stipulation	27	29	61	27
Appeals Reduced	3	9	8	4
Appeals Upheld	15	5	4	6
Other Determinations	13	0	4	4
Total Resolved	**287**	**255**	**218**	**150**
Carried over to next year	**141**	**217**	**80**	**129**

Disaster Relief

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

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

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

The Monterey County Board of Supervisors adopted a disaster relief ordinance (No. 2854-54) on August 24, 1982. This ordinance enables the assessor to apply disaster relief provisions to succeeding roll years.

The following table shows the number of disaster relief claims filed for recent years:

ROLL YEAR	CLAIMS FILED
2005-06	13
2004-05	22
2003-04	18
2002-03	24
2001-02	34

The assessor discovers calamities through reviewing building permits issued for repairs, fire incident reports, newspaper articles, field investigation, and taxpayer notification.

We reviewed records of properties suffering a calamity. In applicable cases, the assessor noted the disaster information on the records and adjusted the assessed values of properties for the disaster.

We found the assessor's disaster relief program to be current and reflect accurate value calculations.

Assessment Roll Changes

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

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

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

ROLL YEAR	ROLL CHANGES
2006-07	6,877
2005-06	7,853
2004-05	6,526
2003-04	6,925

The appraisers determine the need for a roll change, cite the authority for the change, and estimate the current values when applicable. When this information is entered, the system computes the amount of the change and generates the appropriate notices to the taxpayer and county auditor-controller.

We reviewed the following notices: *Notice of Proposed Escaped Assessment*, *Notice of Enrollment of Escape Assessment*, and *Notice of Decreased Assessment.* All required elements were properly incorporated in these documents.

We found roll corrections are made within the authorized period of time, the *Notice of Proposed Escape Assessment* is mailed to taxpayers at least 10 days prior to enrolling the escape, the *Notice of Enrollment of Escaped Assessment* is mailed immediately after enrollment of the escape, and the assessor complies with the statute of limitations for making roll corrections.

We have no recommendations regarding the assessor's assessment roll change program.

Exemptions

Church and Religious Exemptions

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

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

The following table illustrates the number of properties and the amount of assessed value exempt under the church and religious exemption for recent years:

ROLL YEAR	CHURCH EXEMPTIONS	EXEMPTED VALUE	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE
2006-07	5	$190,766	228	$153,100,384
2005-06	7	$1,876,943	229	$148,384,333
2004-05	7	$1,308,501	239	$124,547,023
2003-04	7	$1,597,034	238	$117,276,578
2002-03	5	$682,792	296	$108,449,626

Our review indicates that the assessor properly processed claims for church and religious exemptions.

Welfare Exemption

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

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

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the Board; if the property is a low-income housing property owned and operated by a limited partnership that has a qualified organization (OCC holder) as the managing general partner, then it must also hold a valid Supplemental Clearance Certificate (SCC) issued by the Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's receipt of a validly issued OCC or SCC by the Board.

The following table shows welfare exemption data for recent years:

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2006-07	57	$414,025,955
2005-06	58	$311,214,606
2004-05	55	$275,927,915
2003-04	52	$261,538,730
2002-03	72	$223,392,605

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We also reviewed claims for low-income housing properties, including properties owned by a limited partnership holding an SCC, and identified an area of concern related to claims of low-income housing properties owned and operated by limited partnerships that had a qualified organization as the managing general partner.

RECOMMENDATION 1: Grant exemption to low-income housing property owned and operated by a limited partnership only when it holds a valid Board-issued SCC.

We found one property that was owned and operated by a limited partnership where the assessor granted a welfare exemption before the Board had issued an SCC to the organization. For another property, the assessor granted an exemption for a fiscal year earlier than that stated on the SCC.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the Board; if the property is a low-income housing property owned and operated by a limited partnership that has a qualified organization (OCC holder) as the managing general partner, then it must also hold a valid SCC issued by the Board as provided in Rule 140.2.

Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by Article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218 of the Revenue and Taxation Code, exempts $7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5 of the Revenue and Taxation Code, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or the veteran's unmarried surviving spouse). The amount of exemption is $100,000 or, for qualifying low-income veterans, $150,000. Both these amounts are adjusted annually by a cost of living index.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. The $100,000 basis disabled veterans' exemption requires a one-time filing; annual filing is required if the $150,000 low-income exemption is claimed.

The assessor processed 37,135 homeowners' claims and 874 disabled veterans' exemption claims for the 2006-07 assessment roll. The following table illustrates homeowners' and disabled veterans' exemption data for recent years:

ROLL YEAR	HOMEOWNERS' EXEMPTIONS	EXEMPTED VALUE	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2006-07	37,135	$258,778,886	874	$71,504,659
2005-06	38,236	$266,825,714	873	$69,790,692
2004-05	40,274	$281,605,404	854	$67,651,614
2003-04	44,115	$308,550,414	836	$63,954,942
2002-03	47,870	$334,836,127	766	$58,011,116

Our review of the homeowners' and disabled veterans' exemption records indicates that the assessor is properly processing these exemptions. Accordingly, we have no recommendations in this area.

Racehorse Administrative Tax

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

The assessor annually sends racehorse tax return forms to prior year owners of racehorses. In addition, he sends the appropriate tax form to owners of horse boarding facilities requesting that they report domicile changes. The assessor and tax collector exchange information ensuring that all taxable racehorses are discovered.

The assessor annually sends Form BOE-571-J, *Annual Racehorse Tax Return,* and Form BOE-571-J1, *Annual Report of Boarded Racehorses,* between December 15 and December 31 each year, thereby meeting the requirements of Rule 1045.

In our 2003 survey, we recommended the assessor request the tax collector forward to the assessor a copy of annual racehorse tax returns pursuant to Rule 1045(b). The assessor complied with our recommendation by implementing procedures to ensure that the tax collector forwards copies of racehorse tax returns each year; the assessor retains copies of the returns as required.

Examinations of tax returns delivered to the tax collector and maintained by the assessor indicated no returns exceeded the threshold for mandatory audit. We found that the assessor effectively administers the racehorse tax.

Assessment Forms

Government Code section 15606 requires the Board to prescribe and enforce the use of all forms for the assessment of property for taxation.[5] For the 2006 lien date, the Board prescribed 80 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such a form to the Board for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

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

A review of the forms used by the Monterey County Assessor for the year 2006 revealed the following:

- Of the 80 Board-prescribed forms listed on the three checklists provided for the 2006 lien date, the assessor used 80;
- The assessor did not rearrange any of the forms used;
- The assessor has 18 Board-prescribed forms on-line; and
- The assessor has 21 local forms, form letters, questionnaires, and information sheets on-line.

In our 2003 survey, we recommended the assessor use only current Board-prescribed forms. In our current survey we found no problems. We have no recommendations for this topic.

[5] See also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

ASSESSMENT OF REAL PROPERTY

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

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

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

Regarding real property administration, the assessor:

- Established a direct enrollment program;
- Created a database of property sales to aid the real property appraisers in discovering comparable sales;
- Implemented an integrated document management system for all real property records;
- Created workflow tracking tools for real property appraisal and reporting; and
- Captured digital images of assessed properties, and created a database of digital property characteristics for assessed properties to facilitate valuation.

Change in Ownership

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

Document Processing

The assessor's primary means of discovering properties that have changed ownership is the review of deeds and other recorded documents. The recorder's office requires that Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), accompany documents

submitted for recordation that transfer the ownership of real property. A $20 fee is added to the recording fee when a PCOR does not accompany such documents submitted for recordation.

Copies of PCORs and other relevant documents received by the recorder are collected by the assessor. All recorded documents are scanned by the recorder and the assessor has access to those scanned documents by way of an interface program called the Exigent program. The Exigent Program provides an image of the recorded grant deed, quitclaim deed, gift deed, and any other document deemed as a "good transferable document" by the assessor.

Transfer clerks review each recorded document to determine if a transfer represents a reappraisable event and, if so, the percentage of interest transferred and the indicated sale price. This information is entered into the assessor's system, and the transfer is assigned to an appraiser for review and valuation.

When a transfer document is received without a PCOR, the assessment clerk sends Form BOE-502-AH, *Change of Ownership Statement* (COS), to the owner. Over the last five years, only two COSs have been mailed out.

The following table shows the number of deeds processed in Monterey County during recent years:

ROLL YEAR	DEEDS PROCESSED
2005-06	9,918
2004-05	8,000
2003-04	8,000
2002-03	10,590

Legal Entity Ownership Program (LEOP)

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

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

When the LEOP listing is received from the Board, the mapping division reviews the list, identifies the parcels, and updates the computer system. We found that the assessor processes LEOP notices properly, and he promptly revalues parcels that have undergone a change of ownership.

Section 408.1 Transfer List

Pursuant to section 408.1, the assessor has a two-year transfer list that is available to the public for review. Information on the transfer list is updated quarterly as required by statute. The assessor provides the public access to information about real property transfers that occurred in the preceding two-year period. Assessor's parcel number, recording date, document number, and selling price (also indicated by the documentary transfer tax) identify each transfer on this list. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

Section 63.1 Exclusions and Section 69.5 Base Year Value Transfers

Section 63.1 excludes from change in ownership principal residences and the first one million dollars ($1,000,000) of other real property transferred between parents and their children. Certain transfers from grandparents to their grandchildren are also excluded.

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner is at least 55 years of age or severely and permanently disabled, the owner files a claim timely, and the properties are located within the same county.

The following table shows the number of section 63.1 and section 69.5 claims granted by the assessor in recent years:

ROLL YEAR	SECTION 63.1 CLAIMS	SECTION 69.5 CLAIMS
2005-06	1,251	145
2004-05	1,243	146
2003-04	676	58
2002-03	1,032	70
2001-02	1,387	145

We found the assessor verifies eligibility requirements and tracks and processes section 63.1 and section 69.5 claims effectively.

Direct Enrollment

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraisal involvement. The Monterey County Assessor's

direct enrollment program is designed to expedite the enrollment of qualifying residential and homogeneous properties. For the 2006 roll year, approximately 3,292 transfers were enrolled through this program. We found no problems with the assessor's direct enrollment program.

New Construction

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

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

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

Building Permits

Obtaining and processing building permits is the main source the assessor has to discover assessable new construction. There are 13 permit-issuing agencies in Monterey County. All of these agencies forward copies of building permits and building plans to the assessor on a monthly basis. For the 2005-06 assessment year, these agencies issued a total of 1,282 permits. Other discovery methods used by the assessor include reviewing newspaper articles and business property statements, and conducting field inspections.

Water wells, which are assessable new construction, are properly classified as land. A permit for a well can be issued without the existence of a structure. This may occur when the owner of a vacant parcel drills a well to entice prospective buyers. In addition, owners of agricultural properties will often drill water wells as insurance against reductions in water allocations from irrigation districts and drought.

To ensure that all qualifying new construction is assessed, the assessor must receive a copy of all approved building permits as required by section 72(a). The Monterey County Health Department, Environmental Health Division issues building permits for water wells used both for agricultural and domestic purposes. Copies of these permits are forwarded to the assessor.

Although these permits may be considered less important when compared to typical new construction permits received by the assessor, they serve as notice that other related construction activity may be in progress.

Permit Processing

An assessment clerk inputs the permit data into the assessor's system. The assessment clerk forwards residential permits to the appraiser assigned to that geographical area. Permits for re-roofs, electrical work, plumbing, and mechanical work are considered maintenance, replacement, or repairs work and to have generated no value to the property. Hard copies of these low value permits are not filed in the property record. Low-valued decks and other low-valued items are valued and enrolled; however, the county auditor-controller may not send out a tax bill. The county has no low-value exemption ordinance; it is the policy of the assessor to enroll all assessable property.

Only assessable permits are copied and forwarded to the appraisal staff. All assessable permits are field-reviewed. Field inspections help verify permit information received and aids in the discovery of new construction completed without a permit. The assessor does not have a self-reporting program. We found that assessments were properly documented both on the appraisal record and on the assessor's system for the valuation of the new construction.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. In addition, section 71 requires the assessor to value construction in progress at its full value on each lien date. The appraiser determines the completion status of new construction from an on-site inspection, a review of the notice of completion from the building department, or information provided from the taxpayer.

Several cost sources are used in valuing new construction, including the Assessors' Handbook Section 531, *Residential Building Costs*, local costs, reported historical cost, and, for commercial and industrial properties, the *Marshall & Swift Valuation Service*.

We found no problems with the assessor's new construction program.

Declines in Value

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

Discovery of value declines in commercial, industrial, residential, and agricultural properties is accomplished through several means. Appraisers are expected to be familiar with value trends within their assigned geographic areas and specialties. In addition, taxpayer requests for the assessor to review a property's value, and applications to the assessment appeals board, trigger reviews of other properties located near the taxpayer's property.

All assessments reduced for declines in value are tracked and identified with a special code in the computer system, so the annual inflation factor will not be applied. A list of properties with this

special code is produced, so the decline-in-value properties can be identified for annual review. The computer system flags these properties for annual review.

Timeshare parcels make up the majority of parcels still in decline-in-value status. Timeshare properties are the only exception to the escalating values found in local real estate market in the early 2000s, and are generally granted decline-in-value status based upon an annual review of those types of properties.

The following table reflects the number of properties recognized as having a decline in value in recent years:

ROLL YEAR	DECLINE-IN-VALUE PROPERTIES
2006-07	1,283
2005-06	1,346
2004-05	1,345
2003-04	1,521

We found that the files for residential and commercial properties with decline-in-value assessments contained comparable sales listings, and the appraisals were well documented, complete, and reasonable. The assessor properly reviews and adjusts parcels receiving decline-in-value assessments pursuant to section 51.

Supplemental Assessments

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

The assessor makes a supplemental assessment whenever there is a change in ownership or completed new construction. The supplemental assessment is calculated by the computer and is electronically forwarded to the county auditor-controller for issuance of supplemental tax bills. Although automatically calculated by the computer, appraisers review all supplemental assessments. The total supplemental assessment process, from reappraisal event date to supplemental billing, takes approximately six to nine months.

It is the assessor's policy to issue supplemental assessment notices to all property owners and enroll all supplemental assessments, regardless of amount. However, the county auditor-controller cancels supplemental tax bills that are $10.00 or less.

We examined several new construction and transfer events, and found the assessor correctly makes two supplemental assessments for events occurring between January 1 and May 31, and one supplemental assessment for events between June 1 and December 31. Additionally, the assessor properly grants builders' exclusions only to contractors who file claim forms timely. The assessor also properly applies the inflation factor for the following lien date when supplemental events occur between January 1 and June 30.

The assessor properly makes supplemental assessments for timeshares, leasehold improvements, manufactured homes, taxable possessory interests, and unrestricted portions of properties subject to the California Land Conservation Act.

We found the assessor's supplemental assessment program to be current and accurate.

California Land Conservation Act Properties

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

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

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

For 2006-07, Monterey County had 760,003 acres under contract with an assessed value of about $800 million, excluding properties in nonrenewal status. Properties under CLCA contract consist of 672,525 acres of grazing and dry farming land; 58,969 acres of open irrigated land; and 28,509 acres of vineyards and orchards.

There were 423 CLCA contracts covering 3,532 parcels. Eighteen contracts covering 40 parcels, which contain 5,279 acres, are in nonrenewal, with an assessed value of over $41 million. In addition, Monterey County has 17 parcels in seven scenic easement contracts, with an assessed value for land and improvements of approximately $4 million.

The CLCA assessment program is computerized, including the annual recalculation of nonrenewal values and the comparison between their current restricted values, factored base year values, and current market values. The risk rates programmed into the valuation program reflect land use classification (grazing land, row crops, trees and vines, and land under the Farmland Security Zone Program). The computer program calculates and compares the restricted values with factored base year values to determine the taxable value. The current market value is rarely the lowest value indicator and is presumed to set the upper limit of value.

In our 2003 survey, we recommended the assessor: (1) classify fixed irrigation pumps, fixed booster pumps, and in-ground irrigation systems as improvements; (2) deduct a capital replacement allowance for irrigation wells when appraising land restricted under CLCA contracts; (3) use the correct land charge when valuing living improvements on CLCA properties; and (4) deduct an appropriate charge for income generated by irrigation improvements when calculating CLCA land values.

The assessor partially implemented recommendation (3), and fully implemented recommendations (1), (2), and (4). We are repeating that portion of recommendation (3) not implemented by the county, with modifications.

RECOMMENDATION 2: Improve the California Land Conservation Act (CLCA) program by: (1) using current well replacement costs when deriving a charge for recapture, and (2) using the correct land charge when valuing living improvements on CLCA properties.

Use current well replacement costs when deriving a charge for recapture.

We found the assessor deducts a fixed $5.00 per acre (based on $200/acre with a 40 year life) recapture charge from the income stream for the irrigation wells in all vineyards and orchards. Using a fixed charge for all wells does not appropriately account for the value of the irrigation wells.

The appropriate method of determining the income attributable to wells is to determine the size, depth, and typical life of wells in the area, and multiply the per lineal foot current replacement cost. Using a standard charge does not reflect the value of the individual well.

Use the correct land charge when valuing living improvements on CLCA properties.

We repeat this recommendation because it has only been implemented on parcels when the living improvements end their exemption period. We found several instances where the assessor continues to use an incorrect land charge when calculating the values of living improvements.

To determine the net tree and vine income to be capitalized, the appraiser must deduct a land charge from the gross income. We found in a number of cases that the land charge the assessor deducted is not the same rent used in valuing the land being appraised. In addition, there was no documentation supporting the land charge used. An incorrect deduction of the land charge could result in over- or underassessments of vineyards or orchards.

Taxable Government-Owned Properties

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

taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

There are 19 taxable government-owned properties enrolled in Monterey County. The assessed value of these properties for the 2006 roll year (land and improvements) is less than $1.2 million, and represents only 0.0025 percent of the total roll.

The valuation of a property acquired by a public entity is handled in a manner similar to any other transferred property. Once the property transfer division identifies a public entity transfer, it is forwarded to a real property appraiser for valuation. Taxable government-owned properties are reviewed annually and posted to the real property roll.

In an ongoing effort to track the purchase and sale of city-owned property outside a city's boundaries, the assessor annually requests from incorporated cities and towns of Monterey County a list of properties acquired and sold during each calendar year. The assessor's taxable government-owned properties valuation spreadsheet identifies values (restricted value, base year value, market value) used for comparison in determining lowest value for assessment. We reviewed a random sampling of properties on the assessment roll with a zero value, and found none outside their owner-agency's boundaries.

In our 2003 survey, we recommended the assessor review the list of non-taxable properties to determine the assessability of property owned by government agencies. The assessor has complied with our recommendation. However, during our current review we found an additional problem that needs to be addressed.

RECOMMENDATION 3: Establish base year values for taxable government-owned properties according to Board guidelines.

In our review, we found that the assessor failed to establish base year values for taxable government-owned properties in accordance with Board guidelines. Letter To Assessors 2000/037 (LTA 2000/037), *Guidelines for the Assessment of Taxable Government-Owned Properties*, provides that base year values for taxable government-owned properties acquired after March 1, 1975, are established at either the lower of current fair market value or the restricted value as of the date of change in ownership. Failure to follow the guidelines in LTA No. 2000/037 results in the improper determination of the base year values of taxable government-owned properties.

Taxable Possessory Interests

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

The assessor is responsible for identifying and valuing taxable possessory interests upon their creation, renewal, or renegotiation of the lease, and upon the construction of new improvements on the property.

The Monterey County Assessor's program for discovering taxable possessory interests includes an annual polling of all government entities in the county to request information on agreements with private parties. Staff appraisers annually contact 56 public agencies by letter or in person requesting current information on new or changed tenancies and rents. There are currently 1,752 taxable possessory interests assessed on the unsecured roll and 74 on the secured roll with a total value exceeding $334.4 million.

Taxable possessory interest appraisals are the responsibility of one real property appraiser. The total enrollment of these properties represents approximately 0.70 percent of the 2006-07 roll.

In our 2003 survey, we recommended the assessor omit an inflation factor when developing taxable possessory interest capitalization rates. This recommendation has been implemented. However, we found additional problems that need to be addressed.

RECOMMENDATION 4: Improve the taxable possessory interest program by:
(1) assessing all taxable possessory interests, and
(2) reappraising taxable possessory interests pursuant to Rule 21.

Assess all taxable possessory interests.

In addition to the annual county fair, the Monterey County Fair rents the fairgrounds to groups and individuals for various uses during the year. Many of the lesser uses that warrant assessment as taxable possessory interests have been dropped from the assessment roll because the assessor believes these assessments are not worth the cost of enrollment.

From a list of approximately 100 food and commercial vendors reported in 2006, only 23 are currently assessed at the fairgrounds. There appears to be a number of groups and individuals who make ongoing, beneficial use of the fairgrounds warranting assessment as taxable possessory interests. Pursuant to section 107, these uses constitute taxable possessory interests and should be assessed as such.

Pursuant to article XIII, section 1(a) of the California Constitution, all property is taxable unless specifically exempt. The assessor may petition the board of supervisors to enact a low value property tax exemption ordinance pursuant to section 155.20 to negate the inconvenience and cost of assessing and enrolling low value taxable possessory interests; however, absent such an ordinance, he lacks authority to exempt from taxation low value property.

Reappraise taxable possessory interests pursuant to Rule 21.

We found the assessor fails to use the stated term of possession when determining the market value of a taxable possessory interest for each lien date; instead, the factored base year value is enrolled until the expiration of the contract term of possession or until there is a change in ownership.

Pursuant to Rule 21 the contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term. Rule 21 also provides that the stated term of possession for a taxable possessory interest is the remaining period of possession. Therefore, the stated term of possession of a taxable possessory interest declines on each lien date.

This may have a material effect on the market value of the taxable possessory interest. For this reason, the appraiser must estimate the market value of a taxable possessory interest on the lien date based on the remaining term of the contract, compare this value with the factored base year value, and enroll the lesser of the two.

Failure to use the remaining period of possession when valuing taxable possessory interests may result in an overstatement of the value of the taxable possessory interest on each lien date.

Restricted Historical Properties

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily prescribed capitalization of income method. For assessment purposes, qualified historical property under such a contract is referred to as "restricted historical property."

Section 50280.1 provides that in order for a property to qualify as a historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

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

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

For the 2006-07 roll the assessor properly valued 10 qualifying restricted historical properties at a taxable value of $3,568,782, an increase of 7 properties over our 2003 survey report. We found that the appraisal file for each property contains copies of the contracts with the local governments and the ordinances establishing the historical preservation district and historical preservation zone.

The following table illustrates the most recent data available for restricted historical properties and their roll value:

ROLL YEAR	HISTORICAL PROPERTIES	ASSESSED VALUES
2006-2007	10	$3,568,782
2005-2006	6	$1,703,852
2004-2005	6	$1,508,975
2003-2004	5	$1,170,000
2002-2003	3	$557,074

We did not find any errors in the documentation, property description, and annual valuation for these properties. The assessor annually enrolls restricted historical properties at the lowest of their factored base year value, current market value, or restricted value. We found that qualifying historical properties in Monterey County are correctly assessed.

Leasehold Improvements

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

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over 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, *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.

When new construction by a lessee adds value to a property, the assessor must review those changes and reflect them in a property's assessed value. Attempts to assess this new construction include identifying lessee improvement construction permits, sending new construction questionnaires to lessees, examining rent rolls to look for lessee changes and rent changes, and coordination between the business property and real property staff.

Schedule B of the BPS is a useful source for discovering lessee improvements. It is the practice of the assessor's office to refer expenditures reported on schedule B to the real property division for review. While the assessor's program is effective, we did find one area needing improvement.

RECOMMENDATION 5: Properly classify leasehold improvements.

In our 2003 survey, we recommended the assessor properly classify leasehold improvements. In the current survey we again found several properties where the assessor improperly classified structural leasehold improvements as fixtures on the unsecured roll.

A determination should be made as to whether leasehold improvements are structure items, fixtures, or non-assessable expenses, such as maintenance, repairs, or remodeling. The proper classification is important since: (1) fixtures are a separate appraisal unit when measuring declines in value; (2) in certain cases, fixtures are not subject to supplemental assessments; and (3) fixtures and personal property are components in the value criteria for qualification of a mandatory audit.

Timeshares

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes non-assessable tangible personal property such as furniture, linens, kitchenware, and household items, and other non-assessable personal property items, including vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

Monterey County has three timeshare estate projects with a total of 6,499 separate assessments. These assessments are given a special code which links them with the timeshare project. This ensures proper tracking of each assessment and prevents confusing a resale timeshare with a new (original sale) transfer.

All transfers of timeshare properties are reviewed and input into the database system by one appraiser. The assessor relies primarily on data from the local resale market to value individual timeshares. Comparable sales used are appropriately discounted for marketing expenses, personal property, and non-real property items.

We found timeshare assessment procedures to be reasonable, and timeshares to be properly assessed.

Water Company Properties

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

Regulated Water Companies

Private water companies, both regulated and unregulated, are utility companies that earn a profit from the sale of water. The California Public Utilities Commission (CPUC) regulates the rates charged by private water companies, limiting profits to an authorized return on the companies'

investment. The market values of real property owned by regulated companies are tied directly to those rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value.

Monterey County has 11 regulated water companies. The assessor annually updates the historical cost less depreciation method and develops a market value indicator for the real property. To assist in the annual valuation process, the assessor requests a copy of the water companies' CPUC Annual Report.

Our review of the regulated water companies in Monterey County indicates they are being properly assessed.

Municipal Water Systems

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

We found no parcels owned by municipal water systems located outside of their boundaries.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to land, improvement, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels. We identified 1,190 mutual water companies in Monterey County.

In our 2003 survey, we found the assessor separately assessed land and improvement values for one mutual water company's property; we recommended the assessor review all water company properties for possible double assessments. The assessor has implemented this recommendation, and currently enrolls a minimal value (or zero value) for mutual water company real property.

We found that the assessor's water company program to be current and reflect accurate value calculations.

Mineral Properties

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. Monterey County has no assessable geothermal properties.

Petroleum Properties

Petroleum property mineral rights refer to the rights to remove petroleum and natural gas from the earth. Other property may be associated with these mineral rights. The right to remove such minerals from the earth is a taxable real property interest. Increases in recoverable amounts of petroleum and natural gas caused by changed physical or economic conditions constitute additions to such property interest. Conversely, reductions in recoverable amounts of such minerals caused by production or changes in expectation of future production capabilities constitute a reduction in interest.

Monterey County has one major petroleum field and several smaller ones. The major field represent over 95 percent of the wells located in the county. The major field has two operators. The total petroleum assessment for Monterey County is $206,669,524. Monterey County produces 1.5 percent of the petroleum in California. It ranks seventh in oil production and nineteenth in natural gas.

Since the last survey, the Monterey County Assessor has transitioned from using a mineral consultant to in-house staff. The recent increases in petroleum prices have caused the current market value of these properties to exceed the factored base year values, which constitute their enrolled values. The assessor has worked hard to ensure that the factored base year values have been properly adjusted for new construction and that they do not included normal maintenance as part of the new construction figures. There are no petroleum recommendations.

Mining Properties

Monterey County has 15 active mining properties, mostly sand and gravel. These properties have a total assessment of $42,436,946.

In our prior survey, we recommended the assessor: (1) assess stream bed mineral property consistent with rule 469(e)(1)(b); (2) return incomplete mineral property statements to taxpayers; and (3) assess section 463 penalties for failure to file or late filing of property statements and production reports. Since the last survey, reporting by taxpayers has improved and there has not been a need to return incomplete production reports or assess penalties for failure to file statements.

After reviewing current guidelines for streambed reserves in Assessors' Handbook Section 560, *Assessment of Mining Properties*, we withdraw the recommendation regarding depletion of reserves for streambed properties. The assessor's current practice is in compliance with recommended procedures. However, we did find one problem in the mining program.

RECOMMENDATION 6: Determine declines in value based on the full appraisal unit of mineral properties according to Rule 469(e)(2)(C).

In determining declines in value assessments, the assessor assesses the mineral rights separate from the rest of the mineral property. He enrolls the lower of current market value or factored base year value of the mineral right.

Unique to mineral properties is the requirement that declines in value must be measured on the entire appraisal unit, which represents the combination of property most likely to transfer in the market place. Rule 469(e)(2)(C) provides that declines in the value of mineral property shall be recognized when the market value of the appraisal unit (i.e., land, improvements, including fixtures, and reserves) is less than the current factored base year value of the same unit.

This is in contrast to the valuation of most other types of property where the fixtures are treated as separate appraisal units and enrolled each year at the lower of current market value or factored base year value. It is possible that, for an individual property, the mineral rights could be enrolled at the factored base year value and the fixtures enrolled at current market value.

The clear intent of Rule 469(e)(2)(C) is that the entire appraisal unit be evaluated for declines in value and not the individual components. By not considering the total appraisal unit, the assessor could enroll one part of the appraisal unit at current market value and another part at the factored base year value, resulting in under-or overassessments.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the Board from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the Board's constitutional authority.[6] The court ruled that while the pipelines themselves are properly assessed by the Board, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, governing the valuation of intercounty pipeline lands and rights-of-way.

Monterey County has two intercounty pipeline rights-of-way assessed to two owners. For the 2006-07 assessment roll, the assessments totaled about $523,585. One appraiser handles the assessment of these rights-of-way.

The assessor maintains a separate base year value for each separate right-of-way interest, but assesses the rights-of-way to a single countywide tax rate area in accordance with section 401.8(a).

We reviewed the assessment work sheets and confirmed that the values had been correctly factored from their 1975 base year value. We found that all pipeline right-of-way assessments in Monterey County are correctly valued pursuant to sections 401.8 through 401.13.

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

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business property, the discovery and assessment of leased equipment, 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 recent years:

DESCRIPTION	2006	2005	2004
Audit Workload			
Mandatory	127	154	140
Non-mandatory	7	7	15
Total Audits Schedule	134	161	155
Unfinished From Prior Year	67	34	46
Total Audit Workload	201	195	201
Audits Completed			
Mandatory	114	89	119
Non-Mandatory	5	7	16
Total Audits Completed	119	96	135
Audits Carried Forward	65	67	34

The personal property division is composed of an auditor-appraiser manager and five auditor-appraisers.

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.

There are approximately 450 taxpayers in Monterey County that are subject to the mandatory audit requirement. To remain current, the assessor must audit approximately 113 accounts annually. Each year, the assessor generates a computer listing of accounts attaining values of $400,000 or more for four consecutive years, and this forms the basis of the mandatory audit list for that year.

In our 2003 survey, we recommended that the assessor bring the mandatory audit program to current status and obtain a waiver for mandatory audits that will not be completed timely. He is currently requesting waivers for mandatory audits that he will not complete timely. Although the assessor has made progress in his effort to bring the mandatory audit workload current, he is still behind in completing his mandatory audits. We repeat this recommendation in our current survey.

RECOMMENDATION 7: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

We found that the assessor is behind on mandatory audit completion as shown in the table above. Pursuant to section 469 the assessor shall audit the books and records of professions, trades, or

businesses with trade fixtures and/or business tangible personal property that has a full value of $400,000 or more at least once every four years.

The mandatory audit program verifies the reporting of the largest business property accounts in the county and forestalls any potential large assessment errors. The further removed the audit is from the year being audited, the more difficult it can be to obtain the necessary records to accurately audit the account.

Audit Quality

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

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases mandatory audits reviewed were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

In our 2003 survey, we recommended that the assessor use an audit checklist for every audit. The assessor implemented procedures to assure that an audit checklist is used in every audit.

Business Property Statement Processing Program

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of $100,000 or more to annually file a property statement with the assessor; other persons must file a property statement if requested by the assessor.
Section 442 requires that the property statement show all taxable property owned, claimed, possessed, controlled, or managed by the person filing it and required to be reported thereon.

Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

The assessor's staff for 2006 processed statements as shown in the table below:

CATEGORY	TOTAL COUNT
General Business	9,552
Service Stations	150
Agriculture	392
Financial	133
Leased Equipment	1,039
Other	7,349
Total	18,615

Data submitted on the business property statement serves as the basis for the subsequent business property assessments. In addition, business property statements provide important information regarding changes in business ownership, location of the property, and the business start date at the current location.

The assessor has an efficient discovery program. Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovering assessable business property include reviewing business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories, referrals from other counties, and Board notifications.

We found that the assessor employs effective methods for discovering business personal property.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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

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

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment.

Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to historical cost produces an estimate of market value.

In our 2003 survey, we recommended that the assessor: (1) use the Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended when valuing older machinery and equipment; and (2) correctly identify and assess construction equipment. Since the assessor is following the valuation factors issued by the California Assessors' Association which are similar to those in the AH 581, the assessor has implemented our first recommendation. In addition, the assessor has implemented the second recommendation by using a simple average of new and used construction equipment index and percent good factors when the taxpayer fails to identify equipment as being new or used.

Classification

Machinery and equipment must be classified as either personal property or 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. We found no problems either in the processing of the statements or the classification of machinery and equipment.

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*.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross check of information reported by lessors and lessees verifies the accuracy of the reported information.

We reviewed procedures for assessing leased equipment along with a sample of lessor and lessee accounts. We found the leased equipment program is well managed, with staff doing an excellent job in discovering, processing, tracking, and cross checking leased equipment information. We have no recommendations for this program.

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.

On the 2005-06 assessment roll, there were 2,662 manufactured homes in 65 mobilehome parks in Monterey County with a total assessed value of $43,436,694. The assessor assigns each manufactured home a unique parcel number in a fictitious map book. The parcel number is associated with the manifested home's geographic location.

The assessor enrolls manufactured homes as personal property on the secured roll. The assessor's office is notified of manufactured home sales by State Department of Housing and Community Development reports (HCD), building permits, dealer reports of sale, and annual park surveys.

A real property appraiser and a senior real property appraiser are principally responsible for the assessment of manufactured homes in mobilehome parks; in addition, other real property appraisers are responsible for manufactured homes on fee owned land in their assigned geographic areas.

Pursuant to section 5803, the assessor must take into consideration sales prices listed in recognized value guides for manufactured homes in determining the full cash value of a manufactured home. The assessor uses the *National Automotive Dealers Association Manufactured Housing Appraisal Guide* (NADA) to value manufactured homes.

In addition, the assessor considers other value-influencing factors, including the addition of accessories such as awnings, porches, and skirting, as well as the general overall condition of the manufactured home when considering the NADA value in conjunction with the comparative sales approach to value.

We reviewed a number of manufactured home assessments, including transfers and new installations, and found the assessor has an effective program for the discovery and assessment of manufactured homes.

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 Board. Section 5364 requires the Board to establish such standards. On January 10, 1997, the Board approved the *Aircraft Bluebook-Price Digest* (*Bluebook*) as the primary guide for valuing

aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The Monterey County Assessor's Office assessed approximately 380 general aircraft, including historical aircraft, on the 2006-07 assessment roll. The total roll value was approximately $146 million. An auditor-appraiser is responsible for valuing general aircraft. The assessor discovers general aircraft through the airport manager's hangar reports, airport operators' tenant lists, other counties' referrals, Federal Aviation Administration reports, and physical inspections.

An aircraft property statement is mailed annually to the known owner of each aircraft in the county. The statement lists the aircraft and requests the owner to report added or deleted equipment, engine air hours since last major overhaul, date of last overhaul, overall condition, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the aircraft property statement, the auditor-appraiser incorporates adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

We found the procedures have been correctly administered and the estimates of value to be properly calculated.

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 Board). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

The assessor enrolled six commercial aircraft accounts with an assessed value of approximately $7.2 million for the 2006-07 roll year.

The auditor-appraiser in charge of certificated aircraft predicates his appraisals on the aircraft business property statements' reported costs. The auditor-appraiser then applies a percentage, based on ground and flight time and the number of arrivals and departures in Monterey County during the representative period to the calculated fleet value, to derive a pro rata estimate of the value for certificated aircraft.

We reviewed the certificated aircraft appraisal procedures and found them to be correctly administered and the estimates of values to be properly calculated.

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 $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.

For the 2006-07 assessment roll, the assessor exempted approximately 40 historical aircraft. Historical aircraft are listed on the roll along with other general aircraft, and are not accounted for or listed separately. We reviewed several historical aircraft affidavits and found no problems.

Vessels

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

The assessor has approximately 7,800 pleasure vessels on the 2006-7 assessment roll with a total assessed value of approximately $56.4 million.

Vessel valuation is the responsibility of an auditor-appraiser; primary sources of discovery are DMV reports, marina lists, and referrals from other counties. Vessels are valued using data from the *BUC Used Boat Price Guide*. If current or reliable information is not available in the published value guides, the assessor uses the sales price of similar vessels in the harbor, values of similar vessels within the assessor's own database, or the Internet to obtain current, comparable sales data.

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. To qualify for the exemption, the owner of the vessel must file a Form BOE-576-E, *Affidavit for 4 Percent Assessment of Certain Vessels* (BOE-576-E). If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent. However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

There are approximately 260 commercial vessels potentially qualifying for the 96 percent exemption provided in section 227 for the 2006-07 roll year. We sampled several exempt vessels and found that the exemption forms were filed and exemptions granted as appropriate.

The assessor uses Form BOE-576-D, *Vessel Property Statement*, and Form BOE-576-E, *Affidavit for 4 Percent Assessment of Certain Vessels*, to solicit information only from commercial vessel taxpayers. We believe that the assessor should send a *Vessel Property Statement* to all vessel owners with an aggregate vessel cost of $100,000 or more.

RECOMMENDATION 8: Send owners of vessels having an aggregate cost of $100,000 or more a *Vessel Property Statement*.

We reviewed a sample of pleasure vessel assessments and found at least 13 percent with assessed values of $100,000 or more. Section 441(a) provides that each person owning taxable personal property (except manufactured homes) having an aggregate cost of $100,000 or more for any assessment year shall file a signed property statement with the assessor.

This will ensure that the assessor has all the information needed to value the vessel.

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.

Monterey County has a number of assessable animals. Most animals are reported either on Form BOE-571-F, *Agricultural Property Statement*, or on Form BOE-571-F2, *Registered and Show Horse Statement.* It is the assessor's practice that all recipients of Form BOE-571-F also receive a Form BOE-571-F2.

Methods of discovering taxable animals include review of telephone yellow pages, local newspapers, the *Agricultural Property Statements*, and audits of agricultural property.

We reviewed the procedures for discovering and assessing taxable animals as well as various agricultural statements and found that the program is well administered.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Monterey County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong	Principal Property Appraiser

Survey Team Supervisor:

Bob Reinhard	Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza	Senior Specialist Property Auditor-Appraiser

Survey Team:

Lisa Thompson	Principal Property Appraiser
James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Robert Curry	Associate Property Appraiser
Robert Donay	Associate Property Appraiser
Nick Winters	Associate Property Appraiser
Chaun Wong	Assistant Property Appraiser
Ryan Wong	Assistant Property Appraiser
Teresa Quento	Senior Specialist Property Auditor-Appraiser
Allan Dannen	Associate Property Auditor-Appraiser
Ella Chin	Tax Technician I

B. Relevant Statutes and Regulations

Government Code

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

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

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

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

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

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

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

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

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

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

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

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

15642. **Research by board employees.**

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

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

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

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. **Recommendations by board**.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. **Allocation for administration**.

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

(b) For purposes of this section:

(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.

(2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:

(A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

(3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

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

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

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

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

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

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

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

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

Rule 371. **Significant assessment problems**.

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

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

(1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or

(2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

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

(1) Uniformity of treatment for all classes of property.

(2) Discovering and assessing newly constructed property.

(3) Discovering and assessing real property that has undergone a change in ownership.

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

(5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

(6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.

(7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.

(8) Discovering and assessing property that has suffered a decline in value.

(9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

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

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS

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

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

MONTEREY COUNTY

OFFICE OF THE ASSESSOR

(831) 755-5035 - P.O. BOX 570 - COURTHOUSE - SALINAS, CALIFORNIA 93902
(MONTEREY PENINSULA RESIDENTS MAY DIAL 647-7719)

STEPHEN L. VAGNINI
ASSESSOR

RECEIVED

MAR 20 2008

County-Assessed Properties Division
State Board of Equalization

March 20, 2008

Mr. Dean R. Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
450 N Street
Sacramento, CA 94279-0062

Dear Mr. Kinnee;

Pursuant to Section 15645 of the California Government Code, we are providing a written response to the findings and recommendations in the Monterey County 2008 Assessment Practices Survey for inclusion in the final report.

The assessment practices survey program is an invaluable tool and helps promote uniformity, fairness, equity and integrity in the property tax assessment process. The recommendations that have been made are constructive and in most cases have or will be implemented immediately.

I would like to take this opportunity to thank you and your entire staff for the professional manner in which the survey was conducted.

Sincerely,

Stephen L. Vagnini
Monterey County Assessor/County Clerk Recorder
831-755-5803
vagninis@co.monterey.ca.us

RECOMMENDATION 1: Grant exemption to low income housing property owned and operated by a limited partnership only when it holds a valid Board-issued SCC.

RESPONSE: (1) We concur. We have corrected this error.

RECOMMENDATION 2: Improve the California Land Conservation Act (CLCA) program by : (1) using current well replacement costs when deriving a charge for recapture, and (2) using the correct land charge when valuing living improvements on CLCA properties.

RESPONSE: (1) We concur. We are currently migrating our agriculture property data base into our Megabyte Property management system which will enable us to use current well replacement costs.

(2) We concur. As a result of this migration to Megabyte we will be able to use the correct land charges when valuing living improvements on CLCA properties.

RECOMMENDATION 3: Establish base year values for taxable government-owned properties according to Board guidelines.

RESPONSE: (1) We respectfully disagree with this recommendation. We believe that we have correctly determined the base year value for these properties in accordance with Section 110 of the Revenue and Taxation Code.

RECOMMENDATION 4: Improve the taxable possessory interest program by: (1) assessing all taxable possessory interests, and (2) reappraising taxable possessory interest properties according to Rule. 21

RESPONSE: (1) We concur. We acknowledge the need to assess all possessory interests including those with extremely low values and will do so in subsequent years.
(2) We concur. This recommendation was implemented for 2006-2007.

RECOMMENDATION 5: Properly Classify leasehold improvements.

RESPONSE: (1) We concur. The classification of leasehold improvements

is taken into account when computing value and making supplemental assessments. Improvement values have been combined on the tax roll in order to depreciate both tenant structures and fixtures. We will explore the possibility of making separate classifications between structures and fixtures on the Unsecured Roll with our software vendor. We will also review our mandatory audit lists to remove accounts which may have become mandatory because structural values have been included with fixture values.

RECOMMENDATION 6: Determine declines in value based on the full appraisal unit of mineral properties according to Rule 469 (e)(2)(C).

RESPONSE: (1) We concur. We will make sure that the entire appraisal unit is evaluated for declines in value and not the individual components.

RECOMMENDATION 7: Timely audit the books and records of professions, trades and business pursuant to section 469.

RESPONSE: We concur. After several years of being understaffed in our Business Property Section, we have had a steady and productive staff the last two years. Our average 4 year mandatory audit load is 450 accounts. For 2006-2007 we audited 154 accounts, and this year we are on pace to exceed that number. With our current staff level, and with the addition of another Auditor Appraiser later this year, we should be able to achieve "current" status by the end of the 2008-2009 audit season.

RECOMMENDATION 8: Send owners of vessels having an aggregate cost of $100,000 or more a Vessel Property Statement.

RESPONSE: (1) We concur. We will implement this immediately. We have already created a search for boats with $100,000 or more in value. We will send a Vessel Property Statement to all vessel owners with an aggregate vessel cost of $100,000 or more.