

RIVERSIDE COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2018

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2018/027

July 5, 2018

TO COUNTY ASSESSORS:

**RIVERSIDE COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Riverside County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in specified counties and cities and counties 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 Peter Aldana, Riverside County Assessor-County 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, and the State Legislature; and to the Riverside County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Mr. Aldana 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.

Sincerely,

/s/ David Yeung

David Yeung, Chief
Counties-Assessed Properties Division
Property Tax Department

DY:dcl
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 amount of funding, the State must make up the difference from the general fund.

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

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

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

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."² The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

The objective of the survey program is to promote statewide uniformity and consistency in property tax assessment by reviewing each specified county's property assessment practices and procedures, and publishing an assessment practices survey report. Every assessor is required to identify and assess all properties located within the county – unless specifically exempt – and maintain a database or "roll" of the properties and their assessed values. If the assessor's roll meets state requirements, the county is allowed to recapture some administrative costs.

SCOPE AND METHODOLOGY

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.

Pursuant to Revenue and Taxation Code³ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey included an assessment sample of the 2016-17 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and

² Government Code section 15642.

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

disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.⁴

Our survey methodology of the Riverside 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 Riverside County who provided information relevant to the property tax assessment program.

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

We conducted reviews of the following areas:

- Administration

We reviewed the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, assessment appeals, and exemptions.

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property.

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, and aircraft assessments.

⁴ For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

EXECUTIVE SUMMARY

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. We examined the assessment practices of the Riverside County Assessor's Office for the 2016-17 assessment roll and followed up on recommendations from our prior survey of this county. In our 2014 assessment practices survey of Riverside County, we made eleven recommendations to address problems found in the assessor's policies and procedures. Our review of these prior recommendations, responses, and current status are detailed in the appendix.

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.

In the area of administration, the assessor is effectively managing staffing and workload, assessment appeals, and exemptions.

In the area of real property assessment, the assessor has an effective program for declines in value. However, we made recommendations for improvement in the change in ownership, new construction, California Land Conservation Act (CLCA) property, taxable possessory interests, leasehold improvements, and mineral property programs.

In the area of personal property and fixtures assessment, the assessor has effective programs for processing business property statements and for business equipment valuation. However, we made recommendations for improvement in the audit, manufactured homes, and aircraft assessment programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly, and that the overall quality of the assessment roll meets state standards.

The Riverside County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2016-17 assessment roll indicated an average assessment ratio of 99.82 percent, and the sum of the absolute differences from the required assessment level was 0.21 percent. Accordingly, the BOE certifies that Riverside County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF RIVERSIDE COUNTY

Riverside County is located in southern California. The county encompasses a total area of 7,303 square miles, consisting of 7,206 square miles of land area and 97 square miles of water area. Created in 1893, Riverside County was created from portions of San Diego and San Bernardino Counties. Riverside County is bordered by San Bernardino County to the north, Orange County to the west, San Diego and Imperial Counties to the south, and Arizona State to the east.



As of the 2010 census, Riverside County had a population of 2,189,753. There are 28 incorporated cities in Riverside County, with the city of Riverside serving as the county seat.

For the 2016/2017 roll year, the Riverside County local assessment roll ranked 6th of the 58 county assessment rolls in California.⁵ The total assessed roll value has increased by an annual average of 4.9% percent over the last five years.

⁵ Statistics provided by Table 7 – Assessed Value of County-Assessed Property Subject to General Property Taxes, 2016-17.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Riverside County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

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ASSESSMENT OF REAL PROPERTY

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.⁶

In Riverside County, the assessor maintains detailed policies and procedures for processing changes in ownership. We examined several recorded documents and found the assessor conducts a proper and thorough review for identifying and processing changes in ownership.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The transfer list is available to the public on computer terminals in the lobby of the assessor's office and recorder's office, as well as on the *Property Sales Viewer* search information on the assessor's website. As required by section 408.1(b), the assessor divides the transfer list into geographic areas by APN, and updates the list on a regular basis as transfers are enrolled. Although the assessor meets most of the requirements of section 408.1(c), we found an area in need of improvement.

RECOMMENDATION 1: Include all required information on the two-year transfer list pursuant to section 408.1(c).

We found that the assessor's two-year transfer list contains the APN, address of the property, date of the recording, recording reference number, and the consideration paid for the property. However, it does not include the transferor or transferee.

Section 408.1(c) sets forth the specific items of information that must be included on the two-year transfer list. Section 408.1(c)(1) provides that the list must contain the transferor and transferee, if available, assessor's parcel number, address of the sales property, date of transfer, date of recording and reference number, and consideration paid if known by the assessor. Without including all of the required items on the transfer list, the public does not have access to all the information that must be made available.

⁶ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

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 any entities under its ownership control. 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 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 document evidencing a transfer of an ownership interest in a legal entity.

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property.⁷ On a monthly basis, LEOP transmits to each county assessor 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, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

Monthly LEOP reports from the BOE are reviewed by the title division to determine the effective date and changes that occurred. The title division identifies all real property held by the entity within the county by conducting a name search to discover any parcels affected by the change that may have inadvertently not been reported on the BOE-100B filing. In addition, the title division conducts a search on all other entities listed in the LEOP report by company name to determine if any of these entities own property located in Riverside County. Once the real property parcels have been identified for entities experiencing a reappraisable change in control or ownership, this information is forwarded to the appraisal section for valuation.

The assessor also discovers potential changes in control in ownership of legal entities through business journals, internet news, and business property statements.

Our review showed the assessor reviews the LEOP reports and identifies properties owned by the legal entities having undergone a change in control or ownership as shown on the BOE-100-B filings. In instances where an entity failed to file a BOE-100-B, the assessor applies appropriate

⁷ Effective July 1, 2017, Assembly Bill 102, the Taxpayer Transparency and Fairness Act of 2017, restructured the BOE into three separate agencies: BOE, California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals. The BOE continues to administer the LEOP program under an agreement with CDTFA.

penalties. While we found that most changes in control or ownership of legal entities had been handled properly, we found an area in need of improvement.

RECOMMENDATION 2: Apply appropriate penalties as required by section 482(b).

We found instances where penalties were not applied when an entity did not timely file the BOE-100-B, even though the assessor had been notified by the BOE's LEOP section to apply the penalty.

Sections 480.1 and 480.2 require the filing of a signed BOE-100-B whenever a legal entity has undergone a change in control or ownership affecting California real property. Section 482(b) provides that if a person or legal entity fails to file a BOE-100-B within 90 days of a change in control or ownership or within 90 days of a written request from the BOE, whichever occurred earlier, they are subject to a specified penalty.

The BOE provides the assessor with several reports, as well as copies of BOE-100-B filings, indicating whether a penalty applies. Utilizing these reports and the BOE-100-Bs, the assessor should identify entities with late-filings and apply penalties accordingly. By failing to apply the required section 482(b) penalty, the assessor is not following statutory requirements.

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.⁸

We reviewed several commercial and residential property record files involving recent new construction and found the assessor's program for the discovery and assessment of new construction to be generally well administered. The assessor has written procedures, policies, and forms dealing with new construction. Property records were well documented, and completion of new construction is confirmed through field inspections. However, we found an area in need of improvement.

⁸ For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/newconstruction_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

RECOMMENDATION 3: Obtain copies of permits from the Riverside County Department of Environmental Health.

We found that the assessor does not solicit or receive permits from the Riverside County Department of Environmental Health, which issues permits for underground storage tanks, water wells, and septic systems. Section 72 requires county or city agencies to furnish copies of building permits and related documents to the assessor. To ensure the assessor discovers all qualifying new construction, a copy of every approved building permit must be received. Well and septic system permits can indicate further development and assist the assessor in discovering additional new construction that might otherwise go undetected. By not obtaining these permits, the assessor may be missing potential new construction, resulting in escaped assessments.

California Land Conservation Act Property

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 CLCA 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, such as hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.⁹

For the 2016-17 roll, Riverside County had 1,850 parcels encumbered by CLCA contracts, totaling approximately 57,367 acres, including 1,846 acres in nonrenewal status, with a total assessed value of approximately \$390 million. Riverside County does not have any parcels under Wildlife Habitat, Farmland Security Zone, or Timberland Production Zone restrictions. One contract consisting of 20 parcels and approximately 99 acres has been cancelled since our prior survey. Our review of both nonrenewal and cancellation assessments found that the assessor is in compliance with statutory provisions and recommended practices.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and

⁹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/clca_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

recreational uses, such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents, and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

The assessor recognizes appropriate expenses, including a charge for management. For irrigated cropland, the assessor properly includes agricultural wells as a component of the land value for property tax purposes, and a return on the investment is included in the land capitalization rate. The assessor uses reasonable charges for orchards and vineyards and allows for a return on and a return of nonliving improvements, such as trellises and drip irrigation systems. However, we found an area in need of improvement.

RECOMMENDATION 4: Value compatible commercial use sites utilizing an economic rent when assessing CLCA properties.

We found that the assessor values restricted land devoted to compatible uses of a commercial nature by capitalizing an agricultural land rent.

In accordance with Government Code sections 51238.1, 51238.2, and 51238.3, the assessor must assume that any use allowed by a contract approved by the county/city administration is a compatible use. Riverside County's CLCA contracts permit facilities for the processing of food, feed, fiber, fertilizer, and other similar activities as a compatible use. Other allowed compatible uses include agricultural commercial sales and commercial agricultural storage facilities.

If a portion of a restricted property is used for a permitted compatible use other than agriculture, such as a cold storage facility or a dairy, the assessor must value such land by capitalizing the economic rent applicable to the commercial compatible use using the open-space capitalization rate. The estimate of the economic rent can be made either by using actual rents of comparable commercial land or by multiplying the estimated market value of comparable commercial land by a market-derived capitalization rate. The assessor should not capitalize compatible use income using an economic rent based on agricultural use.

The assessor's practice of using agricultural land rents to value permitted compatible commercial use sites may result in underassessments.

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.¹⁰

The assessor enrolled 11,253 taxable possessory interests for the 2016-17 roll year, with a total assessed value of \$3.6 billion. These taxable possessory interests are located on property owned by approximately 191 government agencies and tax-exempt entities.

The primary means of discovery is through reporting by these agencies and requesting information on agreements with private parties. Other means of discovery include reviewing building permits and newspaper articles, as well as discovery by appraisers performing field inspections.

The valuation and monitoring of the possessory interests is the primary responsibility of a supervising appraiser and one senior appraiser. The supervising appraiser is assigned to the assessment of taxable possessory interests involving government agencies. The assessment of taxable possessory interests on Indian lands is distributed among several real property appraisers in some of the outlying district offices.

The assessor is developing a new automated valuation system that will tie to the assessor's online lease reporting database now in use and provide a method of determining the full cash value of a taxable possessory interest on lien date based on the remaining term of the contract. The system will compare this value with the factored base year value (FBYV) and the lower of the two is then enrolled.

Overall, the assessor has a well-run program for discovering and enrolling taxable possessory interests. However, our review revealed an area where improvement is needed.

RECOMMENDATION 5: Use the proper remaining term of possession when valuing taxable possessory interests.

We found the assessor does not estimate the market value of a taxable possessory interest on lien date based on the correct remaining term of possession. We reviewed several taxable possessory interest files and found the assessor enrolls the FBYV through the term of the leasehold interest until either the term expires, a change in ownership occurs, or a review as the result of an appeal is required. This is the assessor's practice for taxable possessory interests with a stated term of possession as well as for taxable possessory interests leased on a month-to-month basis.

¹⁰ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Rule 21 defines the "term of possession for valuation purposes" as the "reasonably anticipated term of possession." The reasonably anticipated standard applies to all taxable possessory interests, whether or not there is a stated term of possession. In instances where there is *not* a stated term, or the term is month-to-month, the reasonably anticipated term of possession may not decline. However, in those instances where there is a stated term of possession, the reasonably anticipated term should decline each lien date.

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as the remaining period of possession as of a specific date as stated in the lease, agreement, or permit, including any options to renew or extend the specified period of possession. The stated term of a taxable possessory interest therefore declines each year, which may have a material effect on the estimated market value of the taxable possessory interest. Absent clear and convincing evidence of a mutual agreement or understanding as to a longer term of possession, the assessor must estimate the market value of the taxable possessory interest on lien date based on the remaining term of the contract. Then, under the provisions of section 51(a), the assessor must compare this value with the FBVY, and enroll the lower of the two values.

If the assessor does not base current market value on the reasonably anticipated term of possession, he cannot ensure that he is following the provisions of section 51(a). Failing to use a declining term when valuing possessory interests with a stated term of possession may also overstate the taxable value of the possessory interest.

Leasehold Improvements

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

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

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

We reviewed a number of BPSs and related documents and found that the assessor has an effective program for identifying and assessing leasehold improvements. However, we found an area in need of improvement.

RECOMMENDATION 6: Properly value structural leasehold improvements reported on the BPS.

We found that the assessor incorrectly applies depreciation schedules in the valuation of certain structural leasehold improvements reported in column 1 of Schedule B of the BPS.

Costs reported in column 1 of Schedule B of the BPS are for structural improvements made by the tenant or lessee. Structural improvements, whether paid for by the tenant or the landlord, should be assessed in the same manner as other real property. A base year value should be established and factored each subsequent roll year by the annually determined inflation factor in accordance with article XIII A of the California Constitution.

Rule 461(e) states, in part, that land and improvements constitute an appraisal unit. The rule provides for two exceptions: (1) for measuring declines in value caused by disaster, in which case land shall constitute a separate unit, and (2) fixtures and other machinery and equipment classified as improvements constitute a separate appraisal unit. However, Rule 461 does *not* provide an exception for any type of structural improvements to be separately assessed. Leasehold structural improvements should be considered as new construction made to the existing secured real property and should be assessed in the same manner as the existing secured real property on which the leasehold structural improvement is situated, in accordance with Rule 461(e). Therefore, all structural improvements, including leasehold structural improvements, must be enrolled each year at the factored base year value unless the appraisal unit, the secured land and improvements, experiences a decline in value due to disaster, in which case land must be considered a separate unit.

By applying depreciation schedules to reported costs of structural leasehold improvements, the assessor improperly recognizes leasehold structural improvements as a separate appraisal unit, inconsistent with the provisions of Rule 461(e).

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.¹¹

Mining Property

There are over thirty mineral properties located in Riverside County. From a review of the appraisal records, it appears that most mineral properties in Riverside County are valued using the Royalty Method. The Royalty Method capitalizes the annual royalties either paid by or

¹¹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

imputed to a mining operation into a present value of the leased fee mineral interest. This reflects an estimate of the value of the mineral rights to the landowner. The assessor then compares this value to the factored base year value established in previous years and enrolls the lower value. We reviewed several properties and found areas in need of improvement.

RECOMMENDATION 7: Improve mineral property assessments by: 1) adjusting factored base year value to reflect production from property, and 2) measuring declines in value for the entire appraisal unit.

Adjust factored base year value to reflect production from the property.

On several properties, it was noted that the assessor does not properly adjust the base year value of the mineral rights to account for depletion of the minerals on a property; the assessor merely indexes the base year value by the CCPI. This practice conflicts with Rule 469, Mining Properties. Minerals are classified as land. As minerals are removed from the land, the value of the land should be reduced to reflect the removal of such land. Rule 469(e) details the procedures that should be used by the assessor to account for this depletion. Failure to properly account for depletion of the mineral interest on a mining property can lead to improper values being enrolled.

Measure declines in value for the entire appraisal unit.

We found that the assessor does not combine the values for land other than reserves, improvements including fixtures, and reserves into a value for the total appraisal unit when determining whether to enroll the adjusted base year value or the current market value. This procedure conflicts with the provisions of Rule 469(e)(2)(c).

In accordance with article XIII A, all real property receives a base year value and, on each lien date, the taxable value of the real property unit is the lesser of its adjusted base year value or current market value. Section 105 defines fixtures as a type of improvement and, hence, as real property.

For most properties, fixtures are treated as a separate appraisal unit for determining a decline in value. Mineral properties, however, are treated differently. Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land other than reserves, improvements including fixtures, and reserves. The assessor should use this unit for measuring a possible decline in value.

Failure to properly determine the decline in value of a mineral property using the entire mineral property appraisal unit could result in an underassessment of the fixtures and equipment or an overassessment of the mineral rights.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.¹²

For Riverside County, the minimum required number of audits to be conducted each year is 283, with the additional requirement that 50 percent of those audits are to be performed on taxpayers selected from a pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.¹³ The audit responsibility rests on 12 auditor appraisers. Two appraiser technicians and a supervising technician provide administrative support. Two supervising auditor appraisers and a principal appraiser oversee the audit program.

The assessor completed 272 audits for the 2012-13 fiscal year, 258 audits for the 2013-14 fiscal year, 325 audits for the 2014-15 fiscal year, and 322 audits for the 2015-16 fiscal year.¹⁴

Overall, we found the assessor's audit program to be well managed. However, we found areas in need of improvement.

RECOMMENDATION 8: Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, and (2) properly notifying taxpayers of an enrollment of an escape assessment.

Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found that the assessor did not conduct the minimum number of audits as required under the provisions of section 469 two out of four years within the scope of our survey.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of any equitably administered assessment program. A deficient audit

¹² For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

¹³ Refer to Letter To Assessors No. 2009/049, *Significant Number of Business Property Audits*.

¹⁴ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

program can render a business property assessment program with a weakened means of verifying the accuracy of taxpayer reporting or for correcting noncompliant reporting practices. Furthermore, when audits are not conducted timely, it becomes more difficult to obtain the records necessary to substantiate accurate reporting. Therefore, timeliness of the audit is also an important factor in an effective audit program and ultimately a well-managed assessment program. Assessors' Handbook Section 506, *Property Tax Audits and Audit Program*, provides guidance regarding the audit program, presenting and discussing statutory provisions, suggested organizational tools, and audit practices and procedures.

By failing to conduct a significant number of audits, with fifty percent of those audits performed on taxpayers with the largest assessments, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

Properly notify taxpayers of an enrollment of an escape assessment.

We found that the assessor does not send a notification of enrollment of an escape assessment as required by section 534. Upon completion of an audit, the assessor first notifies the taxpayer of audit results by sending the taxpayer the county's *Notification Letter – Property Tax Audit Findings* along with audit summaries and work papers. The taxpayer is allowed 30 days to review the audit findings and provide a response. If 30 days pass without a need to revise the audit, the assessor approves roll corrections that reflect the audit findings. Once the roll correction is approved on the property tax system, the system automatically generates a *Notice of Proposed Escape Assessment*. The tax bill is generated no less than 15 days after the *Notice of Proposed Escape Assessment* is sent out. Riverside County's Board of Supervisors has not adopted an ordinance in accordance with section 1605(c) that allows a tax bill to fulfill the notification requirements of section 534.

Although the assessor sends taxpayers a *Notice of Proposed Escape Assessment* pursuant to section 531.8, this notice does not satisfy the requirement that a *Notice of Enrollment of Escape Assessment* under section 534 be sent, as expressly provided in subdivision (d). The notice under section 531.8 is intended to begin the ten-day period the assessor must wait before enrolling an escape assessment. When an escape assessment is enrolled, a *Notice of Enrollment of Escape Assessment* must be sent. The notice of enrollment must also include information regarding the taxpayers' rights to an informal review, right to appeal, and filing deadlines.

By not properly notifying taxpayers of an enrollment of an escape assessment, the assessor is not in compliance with statute and may not be providing taxpayers information on their appeal rights.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code Section 18007, 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.¹⁵

Riverside County had 65,582 manufactured homes enrolled for the 2016-17 roll year, with a total roll value of \$5,044,737,395. There were 311 mobilehome parks, four of which are resident owned parks.

We reviewed several manufactured home assessments and found an area in need of improvement.

RECOMMENDATION 9: Enroll supplemental assessments for each change in ownership of resident-owned manufactured home parks.

We found that the assessor accumulates all of the reassessments resulting from changes in ownership of resident-owned manufactured home park interests and issues one supplemental assessment to the park association in December each year.

Section 75.11 and Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks* (AH 511), provide that the assessor should enroll separate supplemental assessments for each change in ownership event as of the date each transfer occurred. Multiple change in ownership events on the same property require separate assessments for each occurrence. Letter To Assessors No. 99/87, question nine, illustrates the proper method of calculating these supplemental assessments.

Failure to enroll separate supplemental assessments for each change in ownership of an interest in a resident-owned manufactured home park, based on the date of the transfer, may result in underassessments.

Aircraft

Historical Aircraft

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

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$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

¹⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

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 the exemption is claimed.

In Riverside County, there were 187 historical aircraft assessed on the 2016-17 assessment roll, with a total exempt value of about \$16,934,000. We reviewed several historical aircraft assessments and exemption claims and found the assessor properly obtains signed affidavits, pursuant to section 220.5(b) (3), and collects the one-time fee for the initial claim in accordance with section 220.5(e).

Overall, we found the assessor's aircraft assessment program to be well managed. However, we found an area in need of improvement.

RECOMMENDATION 10: Grant the historical aircraft exemption only when all qualifying conditions have been met pursuant to section 220.5.

We found that the assessor grants historical aircraft exemptions in instances where the owner of the subject aircraft is other than an individual, such as a corporation.

Section 220.5(b) provides several conditions that must be met in order for the assessor to exempt from taxation an aircraft of historical significance. One of the conditions is that the assessee be an individual owner who does not hold the aircraft primarily for purposes of sale. Assessors' Handbook Section 577, *Assessment of General Aircraft*, states that an individual owner is a live person, not a legal entity such as a corporation or a partnership.

By allowing historical aircraft exemptions to owners of aircraft other than individuals, the assessor is allowing historical aircraft exemptions beyond what is permissible under the statutes.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays pertinent information from the 2016-2017 assessment roll.¹⁶

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$76,234,226,097
	Improvements	\$169,120,443,703
	Fixtures	\$653,654,705
	Personal Property	\$826,916,446
	Total Secured	\$246,835,240,951
Unsecured Roll	Land	\$1,568,659
	Improvements	\$132,752,146
	Fixtures	\$3,744,322,026
	Personal Property	\$4,339,274,241
	Total Unsecured	\$8,217,917,072
Exemptions¹⁷		(\$5,932,741,577)
	Total Assessment Roll	\$249,120,416,446

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:¹⁸

YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2016-17	\$249,120,416,000	5.1%	5.5%
2015-16	\$237,054,807,000	5.8%	6.0%
2014-15	\$224,081,124,000	7.8%	6.2%
2013-14	\$207,809,130,000	3.9%	4.3%
2012-13	\$199,947,686,000	-0.3%	1.4%

¹⁶ Statistics provided by BOE-822, *Report of Assessed Values by City*, Riverside County.

¹⁷ The value of the Homeowners' Exemption is excluded from the exemptions total.

¹⁸ State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from \$22,215,259 in 2012-13 to \$28,184,599 in 2016-17.

As of the date of our survey, the assessor had 183 budgeted permanent staff. This included the assessor, 7 assistant assessors and deputy assessors, 84 real property appraisers, 16 business property auditor-appraisers, 10 cadastral draftspersons (mapping), 3 computer programmers, analysts, and technicians, 61 other technical/professionals, and 1 support staff.

The following table identifies the assessor's budget and staffing over recent years:¹⁹

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2016-17	\$28,184,599	4.2%	183
2015-16	\$27,039,060	11.4%	197
2014-15	\$24,269,810	3.8%	189
2013-14	\$23,375,713	5.2%	183
2012-13	\$22,215,259	1.0%	188

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:²⁰

YEAR	ASSESSMENT APPEALS FILED
2016-17	4,274
2015-16	4,209
2014-15	15,013
2013-14	6,170
2012-13	9,049

¹⁹ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

²⁰ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:²¹

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2016-17	992	3,946,891,071
2015-16	963	3,814,861,008
2014-15	986	3,681,020,638
2013-14	1,071	3,575,141,193
2012-13	932	3,466,819,092

Table 6: Change in Ownership

The following table shows the total number of reappraisable transfers processed in recent years:²²

YEAR	REAPPRAISABLE TRANSFERS
2016-17	78,447
2015-16	74,517
2014-15	73,303
2013-14	70,254
2012-13	84,924

²¹ Statistics provided by BOE-802, *Report on Exemptions*.

²² Statistics provided by A *Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 7: New Construction

The following table shows the total number of building permits received and the total number of new construction assessments processed in recent years:²³

YEAR	TOTAL BUILDING PERMITS RECEIVED	NEW CONSTRUCTION ASSESSMENTS
2016-17	33,728	8,560
2015-16	35,341	8,189
2014-15	30,155	5,140
2013-14	25,172	4,034
2012-13	13,914	6,344

Table 8: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:²⁴

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2016-17	200,868
2015-16	210,954
2014-15	229,340
2013-14	275,569
2012-13	395,217

²³ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

²⁴ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 9: Audits

The following table shows the minimum number of audits required to be conducted and the total number of audits completed in recent years:²⁵

MINIMUM NUMBER OF AUDITS REQUIRED ²⁶	2016-17	2015-16	2014-15	2013-14	2012-13
Largest Assessments	142(141)	142(141)	142(141)	142(141)	142(141)
All Other Taxpayers	141(142)	141(142)	141(142)	141(142)	141(142)
Total Required	283	283	283	283	283
NUMBER OF AUDITS COMPLETED					
Total Audits Completed	318	322	325	258	272
Largest Assessments	142	142	142	142	142
Over/(Under) Required	0	0	0	0	0
All Other Taxpayers	176	180	183	116	130
Over/(Under) Required	35	39	42	(25)	(11)
CCCASE²⁷ AUDITS					
Prepared for other county assessors	44	35	28	24	23

²⁵ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

²⁶ See LTA 2009/049, *Significant Number of Business Property Audit*, for the minimum number of annual audits required pursuant to the provisions of Revenue and Taxation Code section 469.

²⁷ California Counties Cooperative Audit Services Exchange, the intercounty cooperative audit program.

APPENDIX B: PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our January 2014 Assessment Practices Survey Report and the assessor's response to each recommendation. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our survey fieldwork.

Appraiser Certification

RECOMMENDATION 1: Ensure appraisers meet the annual training requirements in accordance with section 671.

Original Findings:

During our review, we noted that several appraisers were delinquent in continuing education hours. Section 671(a) provides that in order to retain a valid appraiser's certificate, an appraiser must complete 24 hours of training conducted or approved by the BOE each year. Section 671(b) provides that appraisers with an advanced appraiser's certificate must complete 12 hours of training annually.

Assessor's Original Response:

We agree on the importance of meeting the training requirements of section 671. We have taken measures to ensure that our appraisers meet the annual training requirement. We have been proactive in sending staff to available classes, having them attend seminars and completing on-line SBE courses.

Because budget constraints have made it difficult to send appraisers to training classes not held locally, we have offered the use of our training room for hosting BOE-conducted courses. For FY 2013-2014, Riverside is hosting four courses (2A, 7, 56, and 120) which should help appraisers with negative training hour balances as well as appraisers who need courses to help them acquire Advanced Certification.

Current Status:

The assessor has not implemented this recommendation. Our review of training records for Riverside County confirms that several appraisers were delinquent in continuing education hours during the review period of our survey. Section 671(a) provides that in order to retain a valid appraiser's certificate, an appraiser must complete 24 hours of training conducted or approved by the BOE each year. Section 671(b) provides that appraisers with an advanced appraiser's certificate must complete 12 hours of training annually. The assessor should ensure appraisers meet the annual training requirements in accordance with section 671.

Exemptions

RECOMMENDATION 2: Improve the administration of the disabled veterans' exemption by: (1) granting the full disabled veterans' exemption when claims are filed timely, (2) correctly calculating the amount of the exemption to be granted for a late-filed claim on the low-income provision of the disabled veterans' exemption, and (3) granting the disabled veterans' low-income exemption only for those years in which a valid claim has been filed.

(1) Grant the full disabled veterans' exemption when claims are filed timely.

Original Findings:

It is the assessor's practice to disallow a full exemption of a property for any claim filed after February 15, including first-time filings. For example, one of the properties we reviewed showed that the assessor correctly disallowed the disabled veterans' exemption when a surviving spouse remarried. However, when that claimant became eligible again and refiled for the exemption, the claimant received only a partial exemption, even though the claim was filed within the time frame specified by the statute.

Assessor's Original Response:

While the majority of claims are processed properly, on some occasions the information received from the Veteran's Administration was confusing or conflicting. We have taken steps to ensure that the proper exemption amount is being granted for the years that a valid claim has been filed. We agree and have amended our process to ensure compliance.

Current Status:

The assessor has implemented this recommendation and is now properly allowing the full disabled veterans' exemption for timely claims filed after February 15.

(2) Correctly calculate the amount of the exemption to be granted for a late-filed claim on the low-income provision of the disabled veterans' exemption.

Original Findings:

When applying late-filing provisions for a late-filed claim on the low-income provision of the disabled veterans' exemption, we found that the assessor incorrectly calculates the amount of the partial exemption to be granted for the property. The assessor calculates the partial exemption to be granted based on the entire amount of the exemption rather than the amount over the basic exemption.

Assessor's Original Response:

While the majority of claims are processed properly, on some occasions the information received from the Veteran's Administration was confusing or conflicting. We have taken steps to ensure that the proper exemption amount is being granted for the years that a valid claim has been filed. We agree and have amended our process to ensure compliance.

Current Status:

The assessor has implemented this recommendation. The assessor correctly calculates late-filed exemptions when the claim for low-income exemption is filed late. The assessor also correctly applies the late first time filing for low-income exemptions.

(3) Grant the disabled veterans' low-income exemption only for those years in which a valid claim has been filed.

Original Findings:

We found that for first-time filings of the disabled veterans' low-income exemption, the assessor does not require the claimant to file separate claims for each year of eligibility before granting the exemption on all eligible years. For example, the assessor granted a low-income exemption for both the 2010-11 and 2011-12 roll years for an effective date of August 2010, even though the claimant only filed a claim for the 2011-12 roll year.

Assessor's Original Response:

While the majority of claims are processed properly, on some occasions the information received from the Veteran's Administration was confusing or conflicting. We have taken steps to ensure that the proper exemption amount is being granted for the years that a valid claim has been filed. We agree and have amended our process to ensure compliance.

Current Status:

The assessor has implemented this recommendation. The assessor properly applies the low-income exemption and the basic exemption when claims are initially filed. When a claimant does not the low-income exemption for any particular year, even in initial filing, the assessor applies the basic exemption instead of the low-income exemption.

Change in Ownership

RECOMMENDATION 3: Include all required information on the two-year transfer list pursuant to section 408.1(c).

Original Findings:

Although the assessor's two-year transfer list contains the [Assessor's Parcel Number] APN, address of the property, date of the recording, recording reference number, and the consideration paid for the property, it does not include the transferor or transferee.

Assessor's Original Response:

We believe we are in compliance. R&T 408.1 (c) (1) states the list shall include the "Transferor and transferee, if available". The transferor and transferee information is located on the granter / grantee index, which is in our Recorder system and available to the public. In order for the transferor and transferee to be listed on the two-year transfer list, a bridge would have to be built between our Recorder system and our property tax mainframe. Since we are in the process of replacing both systems, the time and money required to implement this would not be an efficient use of taxpayer resources. This information will be available within our new property tax system.

Current Status:

The assessor has not implemented this recommendation. Refer to the Transfer List recommendation within the Change in Ownership topic in the current Findings and Recommendations section.

RECOMMENDATION 4: Reassess all properties owned by legal entities that have undergone a change in control or ownership.

Original Findings:

In our prior survey, we found a number of properties owned by legal entities having undergone a change in control that had not been reassessed, even though the assessor had been notified of the change through the BOE's LEOP program.

Assessor's Original Response:

The assessor will work to improve the LEOP program. The County's current procedure uses ancillary programs to maintain lists of parcels that have had LEOP transactions worked against them. This problem will be addressed with the implementation of the County of Riverside's new integrated property tax system. The new system will greatly enhance the tracking and reporting capabilities for the county.

Current Status:

The assessor has implemented this recommendation. We reviewed a number of properties owned by legal entities having undergone a change in control and found that they were all reassessed.

New Construction

RECOMMENDATION 5: Improve the new construction program by: (1) obtaining copies of permits from the environmental health department, and (2) issuing supplemental assessments when the construction of trellising and the installation of irrigation systems are completed.

(1) Obtain copies of permits from the environmental health department.

Original Findings:

The assessor does not receive copies of permits issued by the Riverside County Department of Environmental Health. This agency issues permits for underground storage tanks, water wells, and septic systems.

Assessor's Original Response:

We agree, and will work to improve the new construction program by obtaining permits for underground storage tanks, water wells and septic systems from the Riverside County Environmental Health Department. Construction of trellising and installation of irrigation systems do not require permits. Most trellis and irrigation systems are discovered by response to a Trees and Vines Questionnaire or through lien date inspections. In the future, we will pick up the value with the completion date supplied on the Trees and Vines Questionnaire or the date of discovery.

Current Status:

The assessor has not implemented this part of the recommendation. Refer to the New Construction topic in the current Findings and Recommendations section.

(2) Issue supplemental assessments when the construction of trellising and the installation of irrigation systems are completed.

Original Findings:

We found instances where the assessor did not issue supplemental assessments when the construction of trellising and the installation of irrigation systems were completed.

Assessor's Original Response:

We agree, and will work to improve the new construction program by obtaining permits for underground storage tanks, water wells and septic systems from the Riverside County Environmental Health Department. Construction of trellising and installation of irrigation systems do not require permits. Most trellis and irrigation systems are discovered by response to a Trees and Vines Questionnaire or through lien date inspections. In the future, we will pick up the value with the completion date supplied on the Trees and Vines Questionnaire or the date of discovery.

Current Status:

The assessor has implemented this part of the recommendation and is now issuing supplemental assessments for the construction of trellising and installation of irrigation systems upon the discovery of the date of completion.

California Land Conservation Act Property

RECOMMENDATION 6: Improve the valuation of CLCA properties by valuing compatible commercial use sites utilizing an economic rent.

Original Findings:

We found that the assessor values restricted land devoted to compatible uses of a commercial nature by capitalizing by an agricultural land rent.

Assessor's Original Response:

We agree and are taking steps to improve valuation of CLCA properties with commercial uses by capitalizing the economic rent applicable to the commercial use, utilizing the open-space capitalization rate.

Current Status:

The assessor has not implemented this recommendation. Refer to the California Land Conservation Act Property topic in the current Findings and Recommendations section.

Taxable Possessory Interests

RECOMMENDATION 7: Improve the taxable possessory interest program by periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

Original Findings:

In our prior survey, we reviewed several taxable possessory interests with stated terms of possession. We found several instances where taxable possessory interests were not adjusted for declines in value. Instead, the assessor enrolled the factored base year value

each year until either a change in ownership occurred or a review took place due to an assessment appeal.

Assessor's Original Response:

We agree with this recommendation and will attempt to review taxable possessory interests for declines in value as our staffing and workload constraints allow. We are continuing to work with our IT section to improve our database that tracks possessory interests and are in development to create a new property tax system that will help us automate the process of annual valuations due to declining terms of possession.

Current Status:

The assessor has not implemented this recommendation. Refer to the Taxable Possessory Interests topic in the current Findings and Recommendations section.

Leasehold Improvements

RECOMMENDATION 8: Improve the leasehold improvement program by properly valuing structural improvements reported on the BPS.

Original Findings:

In our prior survey, we found instances where the assessor applied business equipment depreciation schedules to structural improvements that were reported in column 1 of Schedule B of the BPS [Business Property Statement].

Assessor's Original Response:

We agree in part with this recommendation in that base year values should be established and factored. This aspect of the recommendation will be addressed upon implementation of our new property tax system in 2015. We disagree that these improvements are under assessed. There is strong evidence to suggest that few if any of these assessments have appreciated in value. These type of improvements are primarily tenant improvements subject to brand identity, specific utility, and changing customer tastes and therefore have minimal or no usefulness to the next tenant or are on typical 5-7 year remodeling/rebranding cycles thus making an increase in value unlikely. In addition, businesses leasing space will typically grow out of their space, move to a more favorable location, or downsize within a few years. Due to the non-permanent nature of the landlord/tenant arrangement and a constantly changing business environment, the life expectancy of these improvements is far shorter than a typical commercial building shell, thus a 15 year economic life is reasonable.

Current Status:

The assessor has not implemented this recommendation. Refer to the Leasehold Improvements topic in the current Findings and Recommendations section.

Mineral Property

RECOMMENDATION 9: Improve the mining property program by: (1) measuring declines in value for mineral properties using the entire appraisal unit as required by Rule 469, and (2) treating settling ponds as a separate appraisal unit.

(1) Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

Original Findings:

Riverside County uses the royalty method to appraise mineral properties. The royalty method capitalizes the payments made to the mineral right owner to estimate the value of the leasehold mineral interest. We found that the value of the land, improvements, and reserves determined by the real property division is not coordinated with the values of the improvements and fixtures determined by the business property division when reviewing mineral properties for a possible decline in value. The assessor erroneously measures the decline in value of the leasehold mineral interest separately from the decline in value of the other components of the mineral property unit.

Assessor's Original Response:

We agree and have created a questionnaire for the taxpayer that will allow us to extract the value of the settling ponds from the economic unit in the future.

Current Status:

The assessor has not implemented this part of the recommendation. Refer to the Mineral Properties topic in the current Findings and Recommendations section.

(2) Treat settling ponds as a separate appraisal unit.

Original Findings:

We found that the assessor does not determine a separate base year value for settling ponds on mineral properties in Riverside County.

Assessor's Original Response:

We agree and have created a questionnaire for the taxpayer that will allow us to extract the value of the settling ponds from the economic unit in the future.

Current Status:

Assembly Bill 1718 was chaptered in October 2017, repealing section 53.5 effective January 1, 2018. The repeal of section 53.5 removed the requirement for separate appraisal units for leach pads, tailing facilities, and settling ponds. BOE's original recommendation is no longer valid.

Audit Program

RECOMMENDATION 10: Document when a situs inspection is performed as part of a standard component of the audit process.

Original Findings:

We found several audits that did not include documentation on the audit checklist that a situs inspection had been performed by the auditor. A situs inspection is an essential aspect of any complete audit. It should be standard procedure, especially for audits involving large commercial and industrial operations or in situations involving excess capacity, functional obsolescence, idle plants, and other unusual circumstances. A physical inspection is a fundamental component of the audit process and can be a pivotal step in reaching an informed value conclusion.

Assessor's Original Response:

We agree the situs inspection is a standard component of the audit process, and will improve our documentation by notating why a situs inspection may be unnecessary on a particular assessment.

Current Status:

The assessor has implemented this recommendation. We found that the assessor routinely documents the performance of situs inspection. Documentation is generally noted on the assessor's Audit Information/Narrative page as a standard question. In addition, it was noted that the auditor appraisers often include discussion in the narrative related to the situs inspection.

Manufactured Homes

RECOMMENDATION 11: Value residents' interests in resident-owned mobile-home parks.

Original Findings:

We found that when a manufactured home is purchased in a resident-owned mobilehome park, the assessor correctly calculates the value of the manufactured home using NADA and enrolls that value as the current market value of the manufactured home. However, the assessor does not recognize the resident's underlying interest in the park.

Assessor's Original Response:

We agree that per SBE guidelines we need to value the fractional interest transfer pertaining to the resident-owned park. We will be developing a sound method by which to accomplish this task and it will be implemented during this fiscal year.

Current Status:

The assessor has partially implemented this recommendation. The assessor is now valuing and recognizing the resident's interest in the park resulting from changes in ownership. However, all of the reassessments resulting from changes in ownership are being accumulated to create only one supplemental assessment on December 30 of each year. The assessor should enroll separate supplemental assessments for each change in ownership event at the time they occur. Refer to the Manufactured Homes topic in the current Findings and Recommendations section.

APPENDIX C: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Riverside County

Chief

David Yeung

Survey Program Director:

Diane Yasui

Manager, Property Tax

Survey Team Supervisor:

David Dodson

Supervisor, Property Tax

Survey Team Leader:

Tina Krause

Senior Specialist Property Appraiser

Survey Team:

Isaac Cruz

Senior Specialist Property Auditor-Appraiser

Michael Ash

Associate Property Appraiser

Jennifer Prince

Associate Property Appraiser

Nancy Le

Associate Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

APPENDIX D: RELEVANT STATUTES AND REGULATIONS

Reference	Description
<i>Government Code</i>	
§15640	Survey by board of county assessment procedures.
§15641	Audit of records; appraisal data not public.
§15642	Research by board employees.
§15643	When surveys to be made.
§15644	Recommendations by board.
§15645	Survey report; final survey report; assessor's report.
§15646	Copies of final survey reports to be filed with local officials.
<i>Revenue and Taxation Code</i>	
§75.60	Allocation for administration.
<i>Title 18, California Code of Regulations</i>	
Rule 371	Significant assessment problems.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The Riverside County Assessor's response begins on the next page.

Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our comments follow the assessor's response.

MAY 30 2018

County-Assessed Properties Division
State Board of Equalization

Riverside County Assessment Practices Survey Responses

- Recommendation 1: Include all required information on the two-year transfer list pursuant to Section 408.1 (c)
- Response: Agree and we are working toward compliance. R & T 408.1 (c) (1) states the list shall include the "Transferor and transferee, if available". The transferor and transferee information is not on our two-year list. The transferor and transferee information is located on our grantor / grantee index, which is in our Recorder system and available to the public. In order to avoid costly changes to bridge our property tax mainframe system to our recorder system we are waiting for the deployment of our new property tax system to make the bridge and place the transferor and transferee information on the two-year list.
- Recommendation 2: Apply appropriate penalties as required by section 482 (b).
- Response: Agree. Our office believed the information provided in the non-response list included untimely filings. We have changed our process and now compile a list of entities designated on the BOE monthly report as "untimely" and "Y". This list will be cross-checked with the non-response list and processed together.
- Recommendation 3: Obtain copies of permits from the Riverside County Department of Environmental Health.
- Response: Agree. The Assessor's office has reached out to RCDEH and has received information regarding properties issued permits for underground storage tanks, water wells and septic systems. We have also designated staff to maintain a relationship with RCDEH to continue to receive this information on a routine basis.
- Recommendation 4: Value compatible commercial use sites utilizing an economic rent when assessing CLCA properties.
- Response: Agree. The Assessor corrected its methodology for the assessment of commercial use sites and now applies a commercial capitalization rate to comparable commercial land values to determine a compatible economic rent for commercial use sites valued under CLCA. The Assessor identified 9 properties and made all necessary corrections.
- Recommendation 5: Use the proper remaining term of possession when valuing taxable possessory interests.
- Response: Respectfully disagree. The Assessor does estimate the market value of taxable possessory interests based on the remaining term of possession when appropriate. The Assessor understands the impact of a declining term of

possession to a taxable possessory interest. However the effect of a declining term of possession can be offset by many factors including changes in rental rates, changes in the market and the likelihood of a different anticipated term. We believe that a review is necessary to determine if there is a material effect on value and do not believe that declines are always going to occur. Our current process and staffing level is sufficient to address all property that is required to be reviewed. Such properties include those that are already currently reduced for a decline in value and those that we become aware of including those that have an informal request for review filed by the taxpayer or an agent. Furthermore the Assessor cites that RTC code 51 states, "Nothing in this section shall be construed to require the assessor to make an annual reappraisal of all assessable property".

Recommendation 6: Properly value structural leasehold improvements reported on the BPS.

Response: Partially agree. Base year values of structural leasehold improvements should be established and factored. This aspect will be addressed upon implementation of our new property tax system.

We disagree that "all structural improvements, including leasehold structural improvements, must be enrolled each year at the factored base year value unless the appraisal unit, the secured land and improvements, experiences a decline in value". We rely on Revenue and Taxation Code section 51, subdivision (d) For purposes of this section, "real property" means that appraisal unit that persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately." The Riverside County Assessor's office contends that by definition tenant owned structural improvements are not part of the secured land and structure appraisal unit because they are purchased separate from the secured landlord owned portion. Furthermore County of Orange v. Orange County Assessment Appeals Bd. confirms that neither section 51 or subdivision including property tax rule 461 does not mandate the appraisal of a property as a single unit.

Recommendation 7: Improve mineral property assessments by: 1) adjusting factor base year value to reflect production from property, and 2) measuring declines in value for the entire appraisal unit.

Responses: 1) Agree. We implemented an improved system to account for the depletion of mineral value from mineral factored base year values. We identified 14 affected properties and are in the process making corrections.

2) Agree. The review of mineral property has only included a cursory review of fixtures as reported by our Business Personal Property section. We are

implementing a more visible review of the entire appraisal unit to track and document the inclusion of fixtures in our review and to maintain factored base year values on fixture values in the real property file.

Recommendation 8: Improve the audit program by: 1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, and 2) properly notifying taxpayers of an enrollment of an escape assessment.

Response: 1) Agree. The Assessor's office did not meet the annual audit requirement as specified in code section 469. At the time, the Assessor's office was under staffed. In order to make up for the shortages, the Assessor's office performed enough extra audits in 2 of the years to exceed the requirement if were looked at as a requirement for the entire 4 year time period in question. We understand that the code was not met as specified, but we tried to meet the spirit of the code given our staff constraint at the time. Subsequent to our staff shortage, the Assessor's office was awarded funding under the (S)tate (C)ounty (A)ssessors' (P)artnership (A)greement (P)rogram and was able to hire staff with SCAPAP monies to address our shortfall. The assessor's office has been and continues to be in compliance since 2014.

2) Agree. We do not send a Notice of Enrollment of Escape Assessment. We will pursue a Section 1605(c) resolution. Our relevant correspondence as well as the standard practice of the Clerk of the Board with respect to escape assessments, however, contains language informing taxpayers of their right to file an appeal on their tax bill. This ultimately gives taxpayers the most amount of time to file to appeal on an escape assessment. However, with respect to Audits; we believe Section 1605(e) stands on its own, does not require a resolution and allows for the receipt of a tax bill to suffice as notice.

Recommendation 9: Enroll supplemental assessments for each change in ownership of resident-owned manufactured home parks.

Response: Disagree. We do enroll separate supplemental assessments for every resident-owned manufactured home. However, we acknowledge that we do not issue separate supplemental assessments for every pro rata portion of the land in a resident-owned manufactured home park that is subject to a (c)hange (i)n (o)wnership. We issue separate supplemental assessments for structure, but we do not issue separate supplemental assessments for the land aspect. Instead we track, value and calculate each separate CIO to the land in our resident-owned parks, and capture the pro rata land value changes by issuing one combined supplemental secured on the entire undivided park. We also believe that question nine in LTA 99/87 is silent on how to segregate and

separately assess base year values when many subjects exist on one large secure parent parcel. We feel we comply with the spirit of the law and provide the taxpayer the convenience of receiving one supplemental tax bill versus many.

Recommendation 10 Grant the historical aircraft exemption only when all qualifying conditions have been met pursuant to section 220.5.

Response Agree. We agree and have corrected our procedures so that only individuals that otherwise meet all the conditions are granted these exemptions. For 2017 we denied two claimants that previously had been granted erroneous exemptions.

BOE COMMENTS TO ASSESSOR'S RESPONSE

Recommendation 5: Use the proper remaining term of possession when valuing taxable possessory interests.

Assessor's Response: Respectfully disagree. The Assessor does estimate the market value of taxable possessory interests based on the remaining term of possession when appropriate. The Assessor understands the impact of a declining term of possession to a taxable possessory interest. However the effect of a declining term of possession can be offset by many factors including changes in rental rates, changes in the market and the likelihood of a different anticipated term. We believe that a review is necessary to determine if there is a material effect on value and do not believe that declines are always going to occur. Our current process and staffing level is sufficient to address all property that is required to be reviewed. Such properties include those that are already currently reduced for a decline in value and those that we become aware of including those that have an informal request for review filed by the taxpayer or an agent. Furthermore the Assessor cites that RTC code 51 states, "Nothing in this section shall be construed to require the assessor to make an annual reappraisal of all assessable property".

BOE Comments to Assessor's Response on Recommendation 5:

BOE's recommendation is that for a taxable possessory interest with a stated term, use the correct term of possession, as required by Rule 21, in order to establish the value to compare on each lien date in order to ensure the lower of the two values is enrolled.

Recommendation 6: Properly value structural leasehold improvements reported on the BPS.

Assessor's Response: Partially agree. Base year values of structural leasehold improvements should be established and factored. This aspect will be addressed upon implementation of our new property tax system.

We disagree that "all structural improvements, including leasehold structural improvements, must be enrolled each year at the factored base year value unless the appraisal unit, the secured land and improvements, experiences a decline in value". We rely on Revenue and Taxation Code section 51, subdivision (d) For purposes of this section, "real property" means that appraisal unit that persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately." The Riverside County Assessor's office contends that by definition tenant owned structural improvements are not part of the secured land and structure appraisal unit because they are purchased separate from the secured landlord owned portion. Furthermore County of Orange v. Orange County Assessment Appeals Bd. confirms that neither section 51 or subdivision including property tax rule 461 does not mandate the appraisal of a property as a single unit.

BOE Comments to Assessor's Response on Recommendation 6:

The facts in *County of Orange v. Orange County Assessment Appeals Bd.* (1993) 13 Cal. App. 4th 524 do not involve the assessment of structural improvements. The court cited Rule 461 as support for the notion that *fixtures* need not always be valued together with other components of

the total property. In fact, the court in that case treated land and land improvements as part of the same appraisal unit. Thus, *County of Orange* has no bearing on the determination of the appraisal unit where structures are involved.

Recommendation 9: Enroll supplemental assessments for each change in ownership of resident-owned manufactured home parks.

Assessor's Response: Disagree. We do enroll separate supplemental assessments for every resident-owned manufactured home. However, we acknowledge that we do not issue separate supplemental assessments for every pro rata portion of the land in a resident-owned manufactured home park that is subject to a (c)hange (i)n (o)wnership. We issue separate supplemental assessments for structure, but we do not issue separate supplemental assessments for the land aspect. Instead we track, value and calculate each separate CIO to the land in our resident-owned parks, and capture the pro rata land value changes by issuing one combined supplemental secured on the entire undivided park. We also believe that question nine in LTA 99/87 is silent on how to segregate and separately assess base year values when many subjects exist on one large secure parent parcel. We feel we comply with the spirit of the law and provide the taxpayer the convenience of receiving one supplemental tax bill versus many.

BOE Comments to Assessor's Response on Recommendation 9:

Each transfer of interest should be given a new base year value depending upon the date of the transfer. Issuance of a combined supplemental secured on the entire undivided park is contrary to guidance provided in LTA No. 99/87.