

RIVERSIDE COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2003

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July 11, 2003

TO COUNTY ASSESSORS:

RIVERSIDE COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2003/047

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 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 Gary L. Orso, the 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 and the assessor's response constitute 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 Boards.

The BOE's County Property Tax Division performed fieldwork for this survey of the Riverside County Assessor's Office from January through March 2002. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Orso and his staff for their cooperation and patience during this assessment practices survey.

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:jm
 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 comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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

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

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Riverside County Grand Jury and assessment appeals boards. 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 Gary L. Orso, Riverside County Assessor-County Clerk-Recorder,¹ elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports 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 Code² section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

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

This survey also included an assessment sample of the 2001-02 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

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

In our 1998 Assessment Practices Survey of Riverside County, we made 26 recommendations to address problems we found in the assessor's policies and procedures. The assessor fully implemented 15 of the changes we recommended, partially implemented three, did not implement six, and two no longer apply. Most of the recommendations that were not implemented, or that were implemented only in part, are repeated in this report.

We noted several strengths in the assessor's programs. His assessments of taxable animals, leased equipment, and pipeline rights-of-way fully conform to statutory requirements. He and his staff possess the appraisers' certificates required by section 670. He has participated in the State-County Property Tax Administration Program every year since its inception in 1995-96, and the county auditor-controller has certified to the State Department of Finance that the county has met the contractual requirements for loan payments.

We also noted several areas for improvement in the assessor's programs. We have grouped our recommendations for improvement into the three categories of administration, real property, and personal property and fixtures. In the area of administration:

- We recommend that the assessor develop a complete operations or procedures manual.
- The assessor should obtain fire reports from all local fire departments to better administer the disaster relief program. Additionally, we recommend that disaster relief be granted only for timely-filed applications, disaster relief be properly prorated and supplementally assessed, the disaster relief ordinance be updated, and written procedures for disaster relief be developed.
- When enrolling a penalty assessment, we recommend that the assessor add the appropriate caption required by rule 261.³
- The assessor should provide the tax collector with a list of persons who were mailed the racehorse tax return.

In the area of real property:

- Entities receiving the religious exemption should have an approved claim on file.
- The verified sale price should be enrolled per rule 2.

³ Unless otherwise specified, all rule references are to California Code of Regulations, Title 18, Public Revenues.

- The assessor should provide the public transfer list described by section 408.1 in the appropriate format.
- We recommend that the assessor process corporate changes in control or ownership in a timely manner.
- The assessor should not require property owners to supply market data on the *Owners Request for Review of Property Value* form.
- We recommend that newly constructed pools be enrolled at market value.
- We recommend that the assessor make a number of technical changes to the possessory interest and taxable government-owned properties assessment programs, primarily in the areas of discovery, tracking, and documentation.
- For California Land Conservation Act (CLCA) properties, we recommend that the assessor deduct a charge for capital replacement of irrigation wells that contribute to the income being capitalized, use periodic questionnaires to obtain compatible use income data, and follow regulatory guidelines when classifying agricultural wind machines.
- We recommend that the assessor correctly calculate the factored base year value for historical properties and implement consistent and correct procedures for reviewing historical property assessments.
- The program for the assessment of water company property requires a number of improvements. The assessor should ensure that all relevant data on water companies is collected and reviewed. We recommend reappraisal of regulated water companies and development of written procedures for the assessment of water company properties.
- We recommend that the assessor make a number of changes to the mineral property assessment program such as improved documentation, adjustment of mineral property values for changes in proved reserves, and use of the anticipated term of possession as the projected economic life.

In the area of personal property and fixtures:

- We recommend that the assessor enroll all escape assessments found during an audit regardless of dollar amount.
- We recommend that the assessor review residential income properties to discover assessable apartment personal property.
- The assessor should use the equipment valuation factors found in Assessors' Handbook Section 581 (AH 581) as intended.

- We recommend that a substantial number of changes be made to the manufactured home assessment program. Specifically, we recommend that all manufactured homes, except those certified to be on approved permanent foundations, be classified as personal property; that recognized value guides be used in the valuation of manufactured homes, whether to establish base year values or determine current lien date market value; and that changes in ownership be effective as of the date reported by the Department of Housing and Community Development.
- For manufactured home parks, we recommend that transfers of shares in manufactured home park cooperatives be treated as assessable changes in ownership and that the residual sale price be enrolled as the land value for manufactured homes purchased in resident-owned parks.
- We recommend that the assessor grant the historical aircraft exemption only to individual (non-corporate) owners of aircraft.
- For the vessel program, we recommend that the assessor add the vessel type, model, and additional equipment information to the appraisal record, and use a wider range of depreciation rates to more accurately calculate market value for all vessels.
- The Riverside County assessment roll meets the requirements for assessment quality established in section 75.60. Our sample of the 2001-02 assessment roll indicated an average assessment ratio of 97.25 percent, and the sum of the absolute differences from the required assessment level was 4.42 percent. Accordingly, the BOE certifies that Riverside County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

Here is the list of formal recommendations contained in this report, arranged in the order that they appear in the text:

RECOMMENDATION 1:	Develop a complete operations manual to provide guidelines for the assessor's staff.	17
RECOMMENDATION 2:	Obtain fire reports from local fire departments to discover property eligible for disaster relief.	20
RECOMMENDATION 3:	Grant disaster relief only for timely filed applications pursuant to section 170(d).	20
RECOMMENDATION 4:	Prorate disaster relief in accordance with section 170(e).	20
RECOMMENDATION 5:	Request that the board of supervisors update the disaster relief ordinance to reflect recent legislative changes to section 170.	21
RECOMMENDATION 6:	Develop written procedures to ensure that disaster relief claims are processed in accordance with section 170.	21
RECOMMENDATION 7:	Reference the controlling statutes when enrolling penalties.	23

RECOMMENDATION 8: Ensure that all entities receiving a religious exemption have an approved claim in the file.....25

RECOMMENDATION 9: Submit to the tax collector a list of persons to whom racehorse tax returns were mailed, as required by rule 1045(a)(2).26

RECOMMENDATION 10: Enroll the verified sale price as required by rule 2.....28

RECOMMENDATION 11: Maintain and grant public access to the transfer list as required by section 408.1.....30

RECOMMENDATION 12: Revise the transfer list database to include the names of the transferors and transferees as required by section 408.1(c).31

RECOMMENDATION 13: Process transfers due to corporate changes in control in a timely manner.....32

RECOMMENDATION 14: Ensure that newly constructed pools are enrolled at market value.35

RECOMMENDATION 15: Revise the *Owner's Request for Review of Property Value* form to provide property owners more flexibility in the information they should provide when requesting a reappraisal.37

RECOMMENDATION 16: Deduct a charge for capital replacement of irrigation wells that contribute to the income being capitalized.40

RECOMMENDATION 17: Utilize periodic questionnaires to obtain compatible use income data for CLCA property.....40

RECOMMENDATION 18: Develop appropriate risk rates for CLCA properties.41

RECOMMENDATION 19: Classify agricultural wind machines as fixtures as required by rule 122.5.41

RECOMMENDATION 20: Review the nontaxable property list to discover taxable government-owned properties.....42

RECOMMENDATION 21: Improve appraisal record documentation for the assessment of improvements on taxable government-owned lands.....42

RECOMMENDATION 22: Establish base year values for taxable government-owned property as described in Letter To Assessors No. 2000/037.....42

RECOMMENDATION 23: Implement a tracking system for possessory interest accounts to flag reassessable events.43

RECOMMENDATION 24: Assess all taxable possessory interests.....44

RECOMMENDATION 25: Correctly calculate the factored base year value for historical properties.45

RECOMMENDATION 26: Implement consistent and correct procedures for the review of enforceably restricted historical property assessments.45

RECOMMENDATION 27: Collect and review relevant data for the assessment of water company properties.48

RECOMMENDATION 28: Reappraise regulated water companies.49

RECOMMENDATION 29: Develop written procedures for assessing water companies.....49

RECOMMENDATION 30: Adequately document mineral property files.....50

RECOMMENDATION 31: Adjust the value of mineral properties for changes in the amount of proved reserves.51

RECOMMENDATION 32: For mineral properties, ensure that the economic life of the property used in the appraisal matches the anticipated term of possession.51

RECOMMENDATION 33: Enroll all escape assessments and overassessments discovered during an audit.....54

RECOMMENDATION 34: Review residential income properties to discover assessable personal property.54

RECOMMENDATION 35: Use AH 581 as intended when valuing older machinery and equipment.....55

RECOMMENDATION 36: Classify manufactured homes as personal property.....57

RECOMMENDATION 37: Revise manufactured home assessment procedures by placing greater emphasis on recognized value guides.58

RECOMMENDATION 38: Enroll changes in ownership as of the date reported by the Department of Housing and Community Development.....59

RECOMMENDATION 39: Assess share transfers in cooperatively-owned manufactured home parks as reassessable changes in ownership.....59

RECOMMENDATION 40: Value resident interests in manufactured home parks by allocating the residual sale price to the land and common structures.....59

- RECOMMENDATION 41:** Grant the historical aircraft exemption only to individual owners of such aircraft61
- RECOMMENDATION 42:** Include vessel type, model, condition and additional equipment on the vessel appraisal record.....61
- RECOMMENDATION 43:** Apply depreciation percentages to vessels according to type.....62

RESULTS OF THE 1998 SURVEY

Change in Ownership

We recommended that the assessor add the cash equivalent value of outstanding improvement bonds to the selling price of a property upon a change in ownership. A subsequent statutory change to section 110 has made this recommendation obsolete.

Standards and Quality Control

During our 1998 survey, it was difficult to trace the source of values entered on the assessment roll to the underlying records. The assessor has made a significant improvement in this area and we do not repeat this recommendation.

New Construction

We recommended that the assessor add the value of fire sprinklers to structures when performing appraisals using the cost approach to value. The assessor implemented this recommendation.

Possessory Interests

We recommended that the assessor improve the possessory interest (PI) program by: (1) improving discovery techniques, (2) providing better documentation on records, and (3) developing a file management system capable of tracking all PIs. We found the current practice of sending request letters to government agencies to be an effective discovery technique, with the exception of the fairgrounds. The assessor has improved the documentation for new reviews and valuations. The assessor has only partially implemented a database for tracking airport possessory interests. For this reason, we repeat parts of our previous recommendation.

Tenant Improvements

We recommended that the assessor ensure consistent and equitable treatment of tenant improvements by: (1) clarifying existing procedures and (2) generating supplemental bills when appropriate. The assessor has implemented our recommendations.

Decline in Value

We stated that the assessor should make reference to and document comparable sales used when establishing a value pursuant to section 51. The assessor implemented this recommendation as of the 2001 lien date.

Low-Value Property Exemption

We recommended that the assessor propose to the board of supervisors that the low-value property exemption resolution be revised to reflect the provisions of section 155.20. Subsequent to the 1998

survey, the BOE legal opinion on this subject was revised and this recommendation is no longer applicable.

Racehorses

The assessor implemented our recommendation to establish procedures to discover racehorses subject to the in-lieu tax and to mail annually a racehorse tax return to the identified owners.

Supplemental Assessments

We recommended that the assessor discontinue the practice of canceling small supplemental assessments without authorization from the board of supervisors. The assessor has implemented this recommendation.

We also recommended that the assessor discontinue the practice of making negative supplemental assessments when trees or vines are removed. The assessor implemented this recommendation.

California Land Conservation Act (CLCA) Properties

We stated that the assessor should revise the procedures for valuing CLCA properties by: (1) recognizing the income generated by compatible uses and (2) using appropriate base year values for newly constructed home sites. The assessor has implemented the second part of this recommendation, but not the first part.

Water Company Property

We recommended that the assessor annually review county and state water inspection reports to discover assessable water company properties. The assessor has not implemented this recommendation.

We also recommended that the sales comparison and income approaches to value be considered when valuing private water companies and that each water company provide the assessor with a copy of its annual report to the California Public Utilities Commission. The assessor did not implement the recommendation, and we now make a recommendation to perform current appraisals of the regulated water companies in Riverside County.

We recommended that the status of private unregulated water companies be reviewed for possible assessment. The assessor has not addressed this issue and we repeat the recommendation.

We recommended that assessment procedures for mutual water companies be reviewed and revised after obtaining the articles of incorporation and bylaws for each company. The assessor has implemented this recommendation.

Taxable Government-Owned Property

We recommended that the assessor review the non-taxable properties list in order to discover taxable government-owned property. We also recommended that valuation of improvements on taxable

government-owned land be reviewed. The assessor has not implemented these recommendations and we repeat them in this survey report.

Timeshares

We recommended the assessor revise the database used to value timeshare estates by including more descriptive attributes. The assessor implemented this recommendation.

Audit Program

We stated that the assessor should bring the mandatory audit program to current status. The assessor has implemented this recommendation. This is an especially noteworthy accomplishment given the degree to which the audit program was behind in 1998.

We recommended that the assessor obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed in a timely manner. The assessor has implemented this recommendation.

Equipment Valuation

We recommended that the assessor revise the valuation factors used to value business property to be consistent with the guidance in the AH 581. We found that the assessor continues to employ minimum percent good factors in the valuation of business property. We therefore repeat the portion of our previous recommendation pertaining to the use of minimum percent good factors.

We recommended that the BOE computer valuation factors be used for the assessment of computer equipment. The assessor has implemented this recommendation.

We stated that all pollution control devices financed by state bond issues should be valued as either equipment or possessory interests. The assessor has implemented this recommendation.

Business Property Statement Processing

When processing business property statements, we recommended the assessor screen those statements more closely for proper signatures. The assessor has implemented a written policy requiring unsigned property statements be returned to the taxpayer, and we noted that the policy is being enforced. The assessor has implemented this recommendation.

Leased Equipment

We recommended that the assessor use the BOE Form V-600B to discover assessable leased property. The assessor has implemented this recommendation.

Vessels

Two changes were recommended to the vessel assessment program: (1) assess all taxable vessels, and (2) assess all vessels at current market value on an annual basis. The assessor has enrolled all vessels

reported by the Department of Motor Vehicles with a value above \$2,000. However, the assessor is using a fixed 5 percent annual depreciation rate, which results in some vessels being inaccurately assessed. We repeat the second part of this recommendation.

Aircraft

We recommended three changes to the aircraft assessment program: (1) mail the aircraft property statement annually to all aircraft owners, (2) make value adjustments based on the information received, and (3) assess all aircraft at current market value on an annual basis. The assessor has implemented these recommendations.

OVERVIEW OF RIVERSIDE COUNTY

Riverside County has a land area of 4,613,220 acres⁴ (7,207 square miles) and a population of 1,545,387 people.⁵ The largest city and the county seat is the City of Riverside, which is one of 24 incorporated cities in the county. Riverside County was created by the Legislature in 1893 from the territory of San Diego and San Bernardino Counties. A total of 3,015,630 acres of land in Riverside County (approximately 64 percent of the land area) is owned by federal, state, and local governments and is exempt from taxation.

Riverside County has seen a significant growth in population over the past decade. According to the 2000 census, the population of the county increased by 32 percent from 1990 to 2000. Western Riverside County is an area that contains affordable housing and has become a popular suburban area for people employed in Los Angeles, Orange, and San Diego Counties. The Coachella Valley, located in central Riverside County, is noted for its desert communities and golf courses. Eleven percent of the county's land area is devoted to agriculture. The economy of Riverside County is diversified, with service and trade industries the leading employers.

⁴ California Department of Finance, Riverside County Fact Sheet, www.dof.ca.gov

⁵ U.S. Census Bureau

ADMINISTRATION

This portion 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. We examined the assessor's budget and workload, the State-County Property Tax Administration Grant Program, appraiser certification, standards and quality control, assessment appeals, disaster relief, roll changes, low-value property exemptions, exemptions, and the racehorse tax.

Budget and Workload⁶

In addition to offices at the County Administration Center in the city of Riverside, the assessor has field offices in the cities of Temecula, Palm Springs, Hemet, Perris, Indio, and Blythe. For the 2001-02 fiscal year, the assessor staffed these offices with 251 people on a total budget of \$15.3 million. The distribution of these positions for both real and business property divisions is as follows:

Position Title	Number
Assessor-Clerk-Recorder (ACR)	1
Chief Deputy ACR	1
Assistant ACR	2
Principal Appraiser	8
Supervising Appraiser	18
Senior Appraiser	38
Appraiser Trainee/I/II	52
Clerical Support	100
Administrative Support	5
Information Technology	13
Mapping	13
TOTAL	251

The following table displays the gross budget of the assessor for the past five fiscal years. These amounts include funds from the State-County Property Tax Administration Program:

⁶ Sources of tabular data presented in this section are the annual reports on Forms R-801 and R-802 filed with the BOE, as well as the official county budgets for the referenced years, and the assessor's own annual reports.

Fiscal Year	Budget
2001-02	\$ 15,322,290
2000-01	\$ 14,302,538
1999-00	\$ 14,122,763
1998-99	\$ 14,492,786
1997-98	\$ 13,476,857

Riverside County experienced a 10.49 percent increase in the value of locally assessed property in the 2001-02 roll year. The assessment roll reached \$98 billion, an increase of close to \$10 billion from the previous year. The assessor believes a vibrant housing market, with a substantial amount of new construction and reassessable changes in ownership, accounts for a large part of this increase. In addition, properties that have experienced declines in value are recovering lost value. Recent trends for the local assessment roll are displayed below:

Roll Year	Total Local Roll (\$)	Increase in Value (\$)	Percent Change %
2001-02	\$ 98,766,644,106	\$ 9,378,939,862	+ 10.49 %
2000-01	\$ 89,387,704,244	\$ 8,807,467,263	+ 10.93 %
1999-00	\$ 80,580,236,981	\$ 4,791,740,097	+ 6.32 %
1998-99	\$ 75,788,496,884	\$ 1,236,215,475	+ 1.66 %
1997-98	\$ 74,522,281,409	\$ 1,031,671,161	+ 1.40 %

Information on the 2001-02 assessment roll is detailed in the table below:

2001-02 Riverside County Local Assessment Roll		
Property Type	Number of Assessments	Enrolled Values
Residential (including manufactured homes)	534,947	\$ 69,576,039,370
Commercial	28,594	20,402,288,858
Timeshares	61,486	450,360,167
Rural	64,126	3,713,046,246
Other	563	37,537,927
Total Secured Roll	689,716	\$ 94,179,272,568
Total Unsecured Roll	52,459	\$ 4,587,371,538
Total Roll	742,175	\$ 98,766,644,106

State-County Property Tax Administration Grant Program

In 1995, the Legislature established the State-County Property Tax Administration Loan Program (PTAP).⁷ This program, which was later entitled the State-County Property Tax Administration Grant Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁸

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

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

Riverside County participated in the PTAP during fiscal years 1995-96, 1996-97, 1997-98, 1998-99, and 1999-00. During the fiscal year 2000-01, the county borrowed \$2,358,068. The county's required base funding and staffing levels for the assessor's office is \$9,405,692 and 164 positions, respectively. The Riverside County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment.

The assessor has used PTAP funds to establish a nonmandatory audit program, to insure that a defense is prepared for all appeals scheduled with the assessment appeals board, to reduce the backlog of decline-in-value appraisals, to establish a discovery program for business property, and to establish a program to assess all vessels with a situs in Riverside County. Funds have recently been used to contract with outside vendors to improve and update the software programs used for property tax administration in the county.

Appraiser Certification

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid certificate issued by the BOE. There are a total of 124 certified appraisers on staff; of these, 49 hold advanced certificates, 61 hold permanent certificates, and 14 hold temporary certificates. Based on information obtained from the BOE's Training and Certification Section, the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the qualifications prescribed by section 670(d). The assessor does not use contract appraisers.

⁷ Chapter 914, Statutes of 1995, in effect October 16, 1995.

⁸ The Property Tax Administration Loan Program expired June 30, 2001. In 2001, the Governor approved AB 589 (Chapter 521, Statutes of 2001), establishing the Property Tax Administration Grant Program for the fiscal years 2002-03 through 2006-07. The new grant program will operate in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

Standards and Quality Control

Standards and quality control functions ensure the consistency and quality of the appraisal product or taxpayer services through the development and maintenance of appraisal and operating standards. Other duties of a standards and quality control unit may include training, legal interpretations, or data processing coordination.

The assessor's quality assurance division monitors standards and quality control. This division consists of a principal appraiser and five staff members. The quality assurance division's mission is to enhance operating efficiency, ensure compliance with policies and regulations, adhere to accepted internal auditing standards when conducting audits, and support all assessor-county clerk-recorder sections and programs.

The division is still in the process of evolving. Until a year ago, this division was known as the standards division. Most of the focus for the quality assurance division has been on the assessor's clerk-recorder operations. More recently, the division has addressed issues related to assessment. This division produces the assessor's annual report, performs audits to ensure compliance with new legislation, and tracks all training for assessor-county clerk-recorder personnel.

Policies and Procedures Manual

One division project is updating the assessor's operations manual, which is on the office Intranet. The goal is to separate the manual into two publications — a policy manual and an operations manual. The policy manual will provide general administration information. The operations manual will be a collection of desk procedures from the assessor and county clerk-recorder's office.

RECOMMENDATION 1: Develop a complete operations manual to provide guidelines for the assessor's staff.

Several sections of existing operations manual are incomplete or nonexistent. Although the operations manual has a rather comprehensive general policies section in volume I, the valuation sections only have guidelines for clerical staff or general employee information. A comprehensive operations or procedures manual providing guidelines for assessment operations was not available.

Administration of the property tax assessment function involves compliance with a series of statutes, regulations, and other guidelines from the BOE. A procedures manual provides consistent written instructions to comply with the required policies and rules. This is particularly important for a highly decentralized operation such as this assessor's office. The manual functions both to communicate and to control the processes applied in making assessments, and to ensure uniformity in practice. We recommend that a complete operations manual be developed.

Total Property Unit

The purpose of a total property unit is to have specialists work together on appraisals of complex properties. Complex properties typically contain a large amount of fixtures requiring segregation from structural real property, or have special valuation procedures mandated by statute. To prevent escape

assessments or double assessments, it is often advantageous to have these accounts handled by a single work group, as opposed to being split between the real property and business property divisions.

The assessor established a total property unit in 1999 to perform the appraisals of complex and special properties. One manager (a principal property appraiser), one supervisor, two senior appraisers, one assessment technician, and one auditor-appraiser (on an *ad hoc* basis) are assigned to the unit. In keeping with the decentralized structure of the assessor's office, the principal appraiser is located in Riverside, one senior and a supervisor are in Palm Springs, and the other senior and an assessment technician are located in Temecula. The property types assigned to the total property unit are listed below:

- Cable Television Properties
- Mineral Rights
- Government Agency Possessory Interests
- Major Resort Hotels (75 units or more)
- Golf Courses (fee courses and resort courses)
- Hospitals
- Assisted Living Facilities
- Regional Shopping Centers and Anchor Stores
- Retail Outlet Centers
- Major Industrial Facilities
- Cellular Communication Towers

For the 2001-02 assessment year, the total property unit assessed 402 parcels with a total value of \$2.92 billion.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 provide the statutory provisions governing functions and jurisdiction of assessment appeals boards and the appointment of members and related matters. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. The BOE has adopted rules 301 through 326 regarding county assessment appeals.

The Riverside County Board of Supervisors passed Ordinance No. 510 which provides for up to five assessment appeals boards and up to five hearing officers. Two appeals boards are operating and each board consists of three members. One alternate member is available to both boards. There are no hearing officers. Assessment appeals board hearings are held every Thursday on the first floor of the county administration center.

Applications are received by the clerk of the assessment appeals board, date stamped, reviewed, and validated. Information from the application is input into a database onto an *Appeals Entry Form* screen. An image of the Form BOE-305-AH, *Application for Changed Assessment*, is also stored in the database. This database is directly linked to the assessor's office and all appraisers can view the *Appeals Entry Form* as well as the image of the application.

The assessor's staff maintains a comprehensive and effective spreadsheet to track the progress of assessment appeals. Over 80,000 appeals were filed between 1995 and 1999. Of these, seven were not resolved within the two-year limit specified by section 1604. These failures were primarily due to input errors, and we found that they had an insignificant impact on the roll.

The number of assessment appeals in Riverside County has decreased substantially in recent years, as shown in the table below:

Year	No. Filed	Withdrawn	No Shows	Stipulated	Dismissed	Adjusted	Denied	Remaining
2001	3,254	129	2	20	212	0	0	2,891
2000	3,691	1,265	272	260	365	19	15	1,495
1999	3,957	1,873	605	725	539	29	41	145
1998	8,415	3,156	861	3,531	763	42	57	5
1997	20,261	7,373	2,174	8,652	1,944	45	73	0

Due to the significant decrease in appeals, the former assessment appeals team that concentrated specifically on the backlog of appeals resumed their regular duties in early 2000. The appraisal staff in the district office where the records are assigned generally prepares appeal defenses. The appraiser who prepares the appeal defense typically also presents it at the hearing. Another member of the assessor's staff attends the hearing and acts as the assessor's representative and liaison between the assessor's office and the clerk of the board's office.

We attended several assessment appeals hearings. The assessor's staff was well prepared and made effective presentations. We also reviewed several appraisal records that were the subject of an assessment appeal. All were well documented and complete. We found the assessor's assessment appeals program in compliance with the law. A good working relationship between the assessor's office and the clerk of the board's office makes the appeals process effective and efficient, particularly in the case of scheduling and document processing.

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 an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he may revalue the property on lien date.

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

The Riverside County Board of Supervisors adopted Ordinance No. 538.1 in April 1972 to provide disaster relief. Subsequently the ordinance has been updated three times. The latest adoption is Ordinance No. 538.4, effective October 18, 1979.

During the past five years, the assessor has granted disaster relief to an average of 67 parcels annually.

RECOMMENDATION 2: Obtain fire reports from local fire departments to discover property eligible for disaster relief.

In the previous survey we recommended that the assessor obtain fire reports from local fire departments to discover properties that may be eligible for disaster relief. Currently the assessor does not receive fire reports from any fire departments. However, we found that the City of Riverside fire department has a computer printout, available to the public, that the assessor could access.

The consequence of the assessor not receiving these reports is that some properties eligible for disaster relief will not receive it, resulting in overassessments. We again make the recommendation that the assessor obtain fire reports from local fire departments to discover properties eligible for disaster relief.

RECOMMENDATION 3: Grant disaster relief only for timely filed applications pursuant to section 170(d).

We observed that the assessor did not enforce the statutory filing period for timely disaster relief claims. At the time we performed our survey, section 170(d) required that a completed application be submitted to the assessor within 30 days of notification by the assessor, but in no case more than six months after the occurrence of damage.⁹ Applications that are received beyond the filing period specified by section 170 are not eligible for property tax relief on their current assessments. We recommend that the assessor grant disaster relief only for timely-filed applications in accordance with section 170(d).

RECOMMENDATION 4: Prorate disaster relief in accordance with section 170(e).

In our review of parcels granted disaster relief, we observed that the disaster relief was prorated using the date of the misfortune or calamity as the beginning point of the reduction and using the date reconstruction was completed. However, we also found parcels where relief was granted for the entire fiscal year, including months prior to the calamity.

⁹ The maximum time to submit an application to the assessor after notification changed from 30 days to 60 days; and the maximum filing period of six months changed to 12 months, effective January 1, 2002 as a result of legislation (SB 1181, Ch. 407).

Section 170(e)(2) requires the assessor to prorate the value of property as reassessed in its damaged or destroyed condition. This proration must be based upon the number of months in the fiscal year after the damage or destruction, including the month in which the damage was incurred. When the property is restored, the factored base year value is restored and the assessor may use supplemental assessment procedures.

The assessor's failure to correctly prorate results in inaccurate assessments. We recommend that the assessor prorate disaster relief in accordance with section 170(e)(2).

RECOMMENDATION 5: Request that the board of supervisors update the disaster relief ordinance to reflect recent legislative changes to section 170.

The assessor's disaster relief ordinance does not reflect the current provisions of section 170.

Effective January 1, 2002, section 170 has been significantly revised in several respects:

- The board of supervisors may specify in the local ordinance that the assessor may initiate the reassessment of property where the assessor determines that taxable property within the county has been damaged or destroyed within the preceding 12 months;
- Where the assessor does not have the general authority to initiate reassessment, he or she may reassess a particular property with the approval of the board of supervisors;
- The property owner now has 12 months or the period established by local ordinance, whichever is longer, to file a claim for reassessment;
- The damage threshold has been raised to \$10,000;
- The property owner now has six months to file an application to appeal a damage-adjusted value;
- The assessor may now notify owners of properties damaged within the preceding 12 months that they may file a claim, and the owner has 60 days to file the application after receipt; and
- The ordinance may provide that where no application is made, the assessor may reduce taxable values of property experiencing a misfortune or calamity up to 12 months after the disaster.

The current county ordinance does not provide these liberalized benefits to owners of disaster-stricken property. We recommend that the assessor request that the board of supervisors amend Ordinance 538.4 (providing for tax relief in disasters) to reflect these recent legislative changes.

RECOMMENDATION 6: Develop written procedures to ensure that disaster relief claims are processed in accordance with section 170.

The assessor has no written procedures for the processing of disaster relief claims. Without written procedures, uniformity and consistency in processing disaster relief claims in a decentralized setting is difficult to achieve. Consequently, we found other areas of concern regarding disaster relief:

- In our review of applications for disaster relief reassessment, we observed there was no indication of the date that the assessor received the application. Although there is no statutory requirement to date stamp applications for reassessment when received, it is important to do so to document whether an application is filed timely, as required by section 170(d). This can be critical when statutory deadlines are involved and an assessment appeal is filed.
- We found that the current *Application for Reassessment* requests applicants to estimate the costs to restore or replace lost or damaged real property. Section 170 allows for tax relief for all taxable real and personal property. Consequently, an assessee may have damaged personal property eligible for relief but not be aware of it, resulting in an overassessment. The assessor's form should refer to both real and personal property so as to comply with the intent of section 170.
- When the assessor grants disaster relief to properties affected by misfortune and calamity, the assessor does not inform the applicant of the proposed assessment. Section 170(c) and county ordinance 538.4 require the assessor to notify the applicant in writing of the amount of the proposed assessment. The notice shall state that the applicant may appeal the proposed reassessment to the assessment appeals board within six months of the date of mailing the notice. This permits a taxpayer to take any disagreement that may arise to the assessment appeals board.
- We found the assessor does not track parcels whose owners have applied for, received, or been denied disaster relief. We were informed that once a disaster relief application was received, it was forwarded to the appraiser who has responsibility for the geographic area in which the property is located. The application is then either approved or denied by the appraiser. Without a list of applications received, we were unable to locate any applications the assessor denied during our survey process. Applications are kept with the property record. During the processing period, the individual appraisers keep track of the affected properties until the process is complete. No separate listing is ever created for management review or follow-up purposes. A central listing of disaster relief applications would help ensure that damaged properties are properly tracked and accurately assessed. In addition, we observed disaster relief appraisal records where the valuation worksheets and the application were missing. Without the valuation worksheet, we were unable to determine how the appraisal staff determined the reassessment valuation.
- We observed that each of the assessor's regional offices processed the applications made in their respective region. Each district office processed the claims filed in their respective region, and each office did it differently. In addition, we found that the appraisal staff was not aware of all of the requirements of section 170.

We recommend the assessor develop written procedures that ensure that disaster relief is processed and administered in accordance with section 170.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute or by the board of supervisors. All assessment roll changes are based on 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 on the original roll, for any reason. 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 assessor uses an automated roll change system that displays current and historical value information. Appraisers and assessment technicians enter updated value information into the system. The program contains a list of standardized reason codes with appropriate legal citations. Review of the displayed results allows reconciliation or rejection by the supervising appraiser. This action places the pending roll revision in a queue. The principal appraiser assigned to this function provides a last review before processing. All data are available for review on the computerized system at any time. Finalization of the roll change by the principal appraiser occurs in the Riverside office.

The assessor processed over 220,000 roll changes for the assessment years 1997 through 2001. The annual history for this period is displayed below:

2001	2000	1999	1998	1997
38,222	36,423	41,194	57,603	56,360

For purposes of comparison, the 2001 corrections relate to a total secured roll of nearly 690,000 parcels and an unsecured roll of over 52,000 accounts. We reviewed a sample of roll corrections and found that the process and procedures work effectively.

RECOMMENDATION 7: Reference the controlling statutes when enrolling penalties.

We found that penalties are placed on the assessment roll with only the notation "penalty" appearing in the "Remarks" column of the roll. This practice is inconsistent with a requirement of rule 261, which provides that the assessor shall reference sections 463 or 504. The rule offers examples of language that may be used, and it also states that words substantially equivalent may be used. We recommend that the assessor prepare the assessment roll in accordance with the requirements of rule 261.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors

has no authority to exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. The board of supervisors must adopt any such exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

The Riverside County Board of Supervisors, by resolution, has adopted a low-value property exemption of \$2,000 that applies to personal property and trade fixtures, mining claims, manufactured home accessories, airplane tie-down possessory interests, and boat dock possessory interests.

In our 1998 assessment practices survey (and our 2001 supplemental survey), we recommended that the assessor request that the board of supervisors consolidate the low-value property exemption resolutions into one that includes all property, real and personal, having a value less than an adopted low-value limit. Subsequently, the BOE's Legal Department has concluded that the law does not require a low-value exemption to be uniform for all property. Accordingly, we do not repeat the recommendation.

Exemptions

The California Constitution and various provisions of the Revenue and Taxation Code provide certain types of exemptions from property taxes. The major exemption programs include welfare, homeowners', church, religious, and disabled veterans'. Assessors administer the homeowners', church, religious, and disabled veterans' exemption programs locally. The welfare exemption program is administrated jointly by the BOE and county assessors. The BOE also provides administrative assistance to assessors for the homeowners' exemption program.

The following table displays Riverside County exemption data for the last five years:

YEAR	WELFARE		RELIGIOUS		CHURCH	
	No.	Value Exempted	No.	Value Exempted	No.	Value Exempted
2001-02	973	\$1,212,202,329	709	\$431,471,094	59	\$11,213,889
2000-01	571	\$1,301,507,949	700	\$396,625,496	72	\$12,217,727
1999-00	491	\$1,088,773,014	628	\$375,604,762	71	\$10,118,382
1998-99	550	\$1,075,529,408	618	\$355,884,536	66	\$14,031,883
1997-98	478	\$1,329,467,219	669	\$354,761,538	66	\$13,348,835

Religious Exemption

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by corporations or other entities that meet the following requirements: (1) are organized and operated for those purposes; (2) are non-profit; and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual. The

Legislature has acted upon such authorization by enacting the religious exemption in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

RECOMMENDATION 8: Ensure that all entities receiving a religious exemption have an approved claim in the file.

We found a number of properties where the assessor granted the religious exemption without a religious exemption claim in the appraisal file. Of the 18 entities we selected from the religious exemption list, only three had a claim on file. The other 15 entities did not, and in these cases, there was nothing in the assessor's records to support granting the religious exemption.

The assessor recently purged the exemption files to dispose of outdated material. Since the religious exemption is a one-time filing, it is important that the claim remain in the file as long as the religious exemption is being granted. The purged files appear to be in storage at another county facility. The assessor should retrieve all religious exemption claims from the purged files and return them to their respective appraisal records. Should any claims remain missing, we encourage the assessor to obtain a new claim from the assessee.

We recommend the assessor ensure that all entities receiving a religious exemption have an approved claim in the file.

Church and Welfare Exemptions

We reviewed the appraisal records for the church and welfare exemptions and found that these properties were used within the scope of the respective exemption. Where there were other users, they also had valid and approved claims on file. Accordingly, we have no recommendations in this area.

Racehorse Tax

Since 1973, racehorses domiciled in California have been subject to an annual tax in lieu of an ad valorem property tax. Racehorses subject to the tax are defined and described in sections 5703 through 5790. The assessor is responsible for those elements of the administration of the racehorse tax described in rule 1045. Specifically, under rule 1045 the assessor is required to (1) use BOE-prescribed forms, (2) discover and inventory taxable racehorses in his/her county, (3) mail the racehorse tax property statements to each identified owner in the county, (4) transmit a list of mailed returns to the county tax collector, (5) retain copies of returns for the period prescribed, and (6) perform audits when those accounts meet the audit threshold.

In our 1998 survey report, we recommended the assessor establish procedures to identify racehorse owners and annually mail a racehorse tax return to those owners. The assessor now has in place a system for identifying racehorse owners, and he has implemented a program to send racehorse owners reporting forms each year. A major problem encountered by the assessor is that the primary identification tool, the ownership list provided by the California Horse Racing Board, contains a number of invalid entries resulting in undeliverable mail.

RECOMMENDATION 9: Submit to the tax collector a list of persons to whom racehorse tax returns were mailed, as required by rule 1045(a)(2).

The assessor does not transmit to the tax collector a list of persons to whom a return for the annual racehorse tax was mailed. Rule 1045(a)(2) requires the assessor to transmit such a list to the tax collector within 10 days of the date of mailing those returns. This requirement makes the tax collector aware of those individuals who should reasonably be expected to file an annual racehorse tax return. We recommend that the assessor transmit to the tax collector the list of mailed racehorse tax returns as required by rule 1045.

ASSESSMENT OF REAL PROPERTY

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

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

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than two percent per year for inflation.

Change in Ownership

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

Document Processing

Riverside County has combined the assessor's office with the county clerk and the recorder offices. This combination has made for more efficient work processes that involve both the recording and assessment functions of the assessor's office. Documents are recorded, examined, and indexed into the recorder's index system upon receipt; from there images of these documents can be retrieved by the assessor's staff.

The function of determining and processing changes in ownership is assigned to the assessor's title and mapping section. Copies of deeds with document codes that indicate potential property transfers are printed and sorted from each day's recordings. Those deeds are grouped by date and document number and distributed to the title staff for examination. The title and mapping section analyzes the validity of the transfer, identifies the physical property involved, identifies the parties involved and their relationships, and assigns the appropriate percentage transferred. Parcel cuts or combinations are sent first to mapping to be assigned new parcel numbers and then returned to the title section for processing.

Deeds are matched with the associated Form BOE-502-AH, *Preliminary Change of Ownership Report* (PCOR), entered into the computer system, and then forwarded to the appraisers for valuation. The title and mapping section examines the relationships of the parties and sends out parent/child

transfer exclusion claim forms to potential applicants. A "hold" flag will be attached to files with pending applications for exclusion to allow time for the claims to be received and processed.

The valuation support section examines the financing information on the PCOR and makes any necessary cash equivalency adjustments using a computer-assisted cash equivalency program. The valuation support section identifies parcels with improvement bonds and alerts the valuation appraisal staff to investigate the potential impact of these bonds. The valuation appraisal staff requests information on the bonds, calculates the value, and analyzes the real estate market to determine how the bonds affect market value.

Direct Enrollment

A direct enrollment program is used to value properties at their sales price when they meet certain criteria. The assessor uses a regression analysis program to review single family residence sales within the county. The program recognizes approximately 2,100 homogeneous neighborhoods, also called "project areas." The project areas typically include similar tract homes, often by the same builder. The boundaries of the project areas are flexible and can be expanded and contracted to customize the search area.

The direct enrollment system analyzes six property characteristics: property type, sale date, size, age of structure, quality class, and replacement cost new for miscellaneous structures. The system compares sales within each project area and enrolls the reported sales price when the predicted price falls within five percent of the confirmed sales price. The program is run once a month.

Reports showing which transfers were valued by direct enrollment are sent to district supervisors for review. The report indicates the percentage difference of the predicted sale price from the confirmed sale price to help reviewers highlight potential discrepancies. Corrections are made in the two-week period before notices of assessment changes are sent to property owners. Of the 71,582 residential transfer reassessments made in 2001, 11,557 were valued with the direct enrollment program.

RECOMMENDATION 10: Enroll the verified sale price as required by rule 2.

During the sampling of real property change in ownership assessments we found that the purchase price, as reported on the *Preliminary Change of Ownership Report*, is not always enrolled as the full cash value for the transfer assessment. In some cases the appraiser deviated from the sales price and used an adjusted amount instead of the reported price. In many of these appraisals the difference between the two values is insignificant. The adjustments do not appear to be based on cash equivalency adjustments or a deduction for personal property but instead on evidence provided by market data.

Section 110(b) provides, among other things, that the purchase price of real property shall be rebuttably presumed to be its fair market value if the terms of the transaction were negotiated at arm's length between a knowledgeable transferor and transferee, neither of which could take advantage of the exigencies of the other. Rule 2 clarifies this statutory requirement by establishing that the consideration paid for a property is its full cash value unless a significant deviation can be shown by a preponderance of the evidence. The rule defines a significant deviation as a deviation of five percent more or less than the total consideration paid for the property.

When a taxpayer has accurately and timely reported his or her purchase price to the assessor, there is an expectation that the sale price will be enrolled as the assessed value. Only in cases where there is a preponderance of evidence that the price is significantly different than the full cash value should the market value be enrolled instead. Insignificant adjustments of the reported sale price are not authorized. The enrollment of a value different from the actual sale price may cause an incorrect base year value to be established and incorrect supplemental bills to be issued.

By enrolling the reported purchase price when it is within five percent of the full cash value, the assessor will comply with rule 2.

Change in Ownership Statements

Deeds unaccompanied by PCOR's are coded to cause Form BOE-502-AH, *Change of Ownership Statement* (COS), to be sent to the transferees. Prior to October 2000, the assessor did not send COS's authorized by section 482 but instead used a locally developed change of ownership statement. In October 2000, the assessor reinstated the use of the COS and the nonfiling penalties provided by section 483. The assessor has drafted procedures on the processing of change of ownership statements under section 482 and stated that they will be incorporated into the assessor's operations manual.

The COS is sent to all transferees who do not file a PCOR at the time of recording. To improve compliance, a reminder to transferees requesting them to return their questionnaire in a timely manner is included with the questionnaire. Incomplete change in ownership statements are returned to the taxpayer for completion prior to the deadline. Approximately 100 letters per week are returned for missing signatures or omitted information. Change in ownership statements not received by the 45-day deadline will trigger a *Notice of Penalty Assessment*. If the statement is received within 60 days, the penalty is automatically abated. If the statement is received after 60 days, the penalty can be abated by the county board of supervisors upon a determination that the failure to file timely was due to a reasonable cause.

A total of 15,724 change of ownership statements were mailed out for the 2000-01 assessment year. The compliance rate has climbed to nearly 85 percent with the use of simplified instructions, penalty reminder sheets, and the returning of statements with missing signatures or omitted information. Still, 617 penalty assessments were enrolled for a total of \$104,442 during 2000.

Valuation of Changes in Ownership

Appraisers are assigned geographic areas of responsibility. Appraisers can access the computer system to review the status of their transfer workloads. Typically, appraisers develop their own strategy for handling their workloads and pull their own appraisal records accordingly.

Appraisers have a hard copy of the PCOR in the appraisal records as well as access to all the information in the database regarding the transfer. Many of these assignments consist of sales that did not qualify for the direct enrollment process.

To perform the appraisals they are assigned, the appraisers use a comparable sales database system available on their computers. The system is very flexible and allows parameters to be adjusted to sort by a wide degree of variables. Procedures for valuing transfers are included in the operations manual.

The valuation support section identifies and flags parcels impacted by improvement bonds. Information on the bonds is collected by the assessor and the amount calculated for each parcel involved. This information is made available to the appraiser who will analyze the effect on the market and determine whether any adjustments are necessary. The comparable sales system allows the appraisers to sort properties with and without improvement bonds to help analyze any impact.

Section 69.5 Base Year Value Transfers

Applications for base year value transfers pursuant to section 69.5, allowing the transfer of the base-year value of one dwelling to another for a person over age 55 or disabled, are available at all of the assessor's field offices. Applications include an information and instruction sheet with typical questions and answers. Applications are received, assigned an identification number, and logged into the assessor's computer system. The social security number on the application is checked against a database to determine whether there have been any prior exclusions.

The supervising appraiser in charge of the section 69.5 base year value transfer program assembles a package for each application, documenting the applicant's birth certificate, ownership and assessment data for the original residence, the factored base year value for the original residence, ownership and assessment data on the replacement residence, and an approval checklist to insure that all criteria are met. The taxpayer becomes aware of an approval or denial of their claim by the receipt of a *Notification of Assessment Change*. An approval/denial letter for these base year value transfers is being developed.

For 2001, 127 base year value transfer exclusions were granted and 49 applications were denied. The most common reason for denial was that the factored base year value of the former residence was greater than the value of the new replacement dwelling. Consequently, the claim would not result in a reduced assessment because the value transferred would be greater than the value of the new property, and there would be no benefit to the taxpayer. Reports listing approved section 69.5 base year value transfer claims are sent to the BOE each July and December. Riverside County no longer accepts intercounty base year transfers, but does maintain a database of prior intercounty base year transfer exclusions.

Public Transfer List

Section 408.1 requires all assessors in counties with populations exceeding 50,000 people, as determined by the 1970 federal census, to maintain for public inspection a list of transfers of any interest in property, other than undivided interests, within the county which have occurred within the preceding two-year period. The list must include certain information and is to be updated quarterly. For inspection of the list, the assessor may require the payment of a nonrefundable fee in the amount necessary to reimburse the county for administrative costs incurred, or \$10, whichever is less.

RECOMMENDATION 11: Maintain and grant public access to the transfer list as required by section 408.1.

As the assessor has modernized and moved toward paperless systems, the computer system has been modified in an attempt to comply with the requirements of section 408.1. All of the transfer information

for the last two years is available to staff, including confidential information from taxpayer sales letters. Much of this information is also available on another computer database named "Comps Listing R/T (408.1)." This database allows the computer user to scroll the sales listings, and the indicated sale amount displayed on this screen is from the non-confidential transfer tax stamps. However, we found two problems with the current system for making this information available to the public.

Our experience at the public counter at several field offices was that the information could not be obtained easily by the general public. The computer terminals provide public access to several useful databases, but not the transfer list. When questioned specifically about this database, the counter staff could work with the public on examining the information but not from the public access terminals. They would opt, instead, to work with the public to narrow the scope of the search and identify exactly what information the person was trying to obtain. Portions of the list can be printed, but because of the size of the database it is generally impractical to print out the entire list.

Section 408.1(a) requires that the assessor maintain such a transfer list and section 408.1(d) requires that the list be open to inspection by any person. Because the list is not available on the public access computers and the information must be reviewed with the assistance of assessor's staff, the public does not have the intended access to this information.

We recommend the assessor take the steps necessary to grant the public access to the full transfer list.

RECOMMENDATION 12: Revise the transfer list database to include the names of the transferors and transferees as required by section 408.1(c).

Section 408.1(c) specifies the fields of information necessary for a public transfer list. Most of the required fields appear on the assessor's "Comps Listing R/T Code (408.1)" program, but the names of transferors and transferees do not appear on this screen. We recommend that the revise the transfer list database to include all of the requirements stated in section 408.1.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation (with example) of section 64 changes in ownership or control and applicable exclusions. Discovery of such a change in ownership is difficult because ordinarily there is no recorded notice of the transfer.

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

The title and mapping section is charged with the processing of the LEOP notifications from the BOE. Additionally, field appraisers and other staff will notify this section about corporate changes in control as they become aware of potential transfers.

The title and mapping section identifies the parcels involved in the corporate transfer from the notification list or correspondence with the entities. Parcels are coded as Unrecorded Document deeds and dummy deeds are created using the date of change in control as the effective transfer date. The title and mapping section then updates the system to inform field appraisers to value the parcels involved. The valuation appraisers will appraise the parcels as they do other transfers that are loaded into their system.

Appraisers may become involved in the discovery of corporate changes in control while examining business property statements or while corresponding with property owners. Sometimes, corporate officers will initiate the process by contacting the assessor's office to report changes in ownership.

RECOMMENDATION 13: Process transfers due to corporate changes in control in a timely manner.

We noted several large corporate changes in control that had not been processed, even though the BOE had notified the assessor of the changes in control years before our fieldwork in early 2002. Discussions with staff suggested that the title division may have lost track of some of the monthly packages mailed from the BOE's LEOP Unit and consequently were not aware of the changes in control. In other cases, the transfers are still being processed while additional information is being collected.

Because the title division could not locate some LEOP reports indicating changes in control, and had not discovered the corporate transfers by other means, the properties involved could escape assessment. The BOE's LEOP Unit sends out a periodic alphabetic listing to all counties of legal entities that have experienced changes in control. It also sends to individual counties questionnaires submitted by transferees that include assessor's parcel numbers of properties in the county that have changed control. This letter and the listing provide adequate notice to county assessors of changes in control that should be investigated. Improvements in the assessor's own discovery methods could also lead to more thorough compliance.

The assessor's failure to timely enroll corporate changes in control results in escape assessments. We recommend that the assessor process transfers due to corporate changes in control in a timely manner.

New Construction

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Practical guidelines for defining and valuing new construction are found in rule 463 and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

Building Permits

Building permits are the assessor's primary method of discovering new construction. To ensure that all qualifying new construction is assessed, the assessor must receive a copy of every approved building permit. In accordance with section 72(a), a copy of any building permit issued by any city, county, or city and county shall be transmitted by each entity to the assessor as soon as possible after the date of issuance.

The assessor receives building permits from 24 incorporated cities and the County of Riverside. Currently, five cities and the county supply the permit data on computer disks or by electronic mail. The remaining cities provide permit information on paper. The assessor's staff collects building permit information from the various building and safety departments that do not send it electronically. Once received, all building permits are entered into a computer database. Information is uploaded in electronic form automatically into the database, while the information received in paper form is keyed into the system.

Residential permits are screened by clerks to determine which permits are likely to represent appraisable events. Those permits are entered into a second database of permits to be worked. Permits are screened based on the type of permit and the listed permit value. Roofing, electrical, or plumbing permits are often screened out; but these permits may be forwarded to appraisers if other indicators suggest that there may be assessable activity. Permits for commercial properties are screened by supervisors who determine which permits are likely to indicate reappraisable events.

Property information is merged into the database of "to be worked permits" to create the permit tracking system, which provides the pertinent permit and property information. Any updates on the permitted new construction, such as the receipt of a new construction statement or completion date of permitted construction, is keyed into the system.

The assessor's permit tracking system allows staff to sort building permit files in a number of ways so that supervisors can effectively make assignments and appraisers can track the status of permits. Once entered in the permit system, permits remain there until they are worked or actively removed.

While there is no local ordinance requiring building and safety departments to list assessor's parcel numbers on building permits, in most cases the parcel numbers are included. When the parcel numbers are not included, the assessor's staff determines the parcel numbers using the legal description and address normally found on the permit. The following table displays the annual permit volume by property type:

Year	Residential	Commercial	Agricultural	Total
2000	28,246	1,002	121	29,369
1999	23,301	957	140	24,398
1998	22,601	884	129	23,614
1997	20,228	873	120	21,221
1996	20,449	942	157	21,548

The assessor's staff estimates that building permits are issued for 95 to 99 percent of new construction in Riverside County. In the past, the assessor has engaged in record update projects where appraisers have compared building records to actual improvements in an effort to discover escaped construction. While appraisers continually look for unreported new construction, canvassing for assessable new construction without permits is now rare.

New Construction Questionnaires

The assessor uses new construction questionnaires to request information from property owners about additions and alterations to their properties. When entering building permits into the assessor's computer system, the data entry staff screens those permits and generates a new construction questionnaire where appropriate.

Mailing of a new construction questionnaire is triggered when it is determined that the issuance of a building permit may indicate a reappraisable new construction event. Questionnaires are sent to the address of the property owner for the property referenced in the permit. New construction questionnaires are sent most often for permits indicating residential additions, alterations, pools, patios, and certain electrical permits. Permits for new residences, or for repair or roof permits usually do not result in new construction questionnaires being sent. Specialized questionnaires are sent for commercial and industrial properties.

When the assessor receives a new construction questionnaire, the permit system screen is updated to alert the appraiser of its receipt. The appropriate regional office receives the new construction questionnaire for filing and review by an appraiser. Owner-reported historical cost data and completion dates are compared to other available information sources to determine the completion date and added value.

If the original questionnaire is not returned, a second questionnaire is not automatically sent; an appraiser must request a second mailing. No penalties are applied for failure to reply.

Since completed new construction questionnaires can be found in many property files having assessable new construction, it is a reasonable presumption that the new construction questionnaire program is satisfying the need for this important information by delivering owner-reported costs and other relevant data to the appraisers.

Construction in Progress

Section 70 states that new construction is "[a]ny addition to real property, whether land or improvements, (including fixtures), since the last lien date." Section 71 states: "[c]onstruction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of the property which is newly constructed shall be reappraised at its full value."

New construction questionnaires are not sent to check the status of construction in progress. Properties with ongoing construction have separate forms in the files and the status of the new construction is logged at various check dates. Additionally, the permit system allows the appraiser to produce reports of all properties with ongoing construction.

When ongoing construction is not complete on the lien date of each year, an appraiser will confirm the portion of work that has been completed and assess the value of the unfinished construction as of the lien date. Typically, an appraiser will field check the property for progress on or around the lien date, although the status may be confirmed by letter or telephone. Observation and owner-reported completion dates are the most commonly used methods for closing out construction in progress. In addition, the computerized permit system allows the appraiser the ability to confirm final dates with the various building departments.

Cost Standards

Several sources of construction cost information are available for the appraisal of new construction. Building departments supply the assessor with a building permit value and a final completion date upon request. Returned new construction statements often provide the actual cost, project description, and completion date.

For valuation of residential construction by the cost approach, the assessor typically uses the Assessors' Handbook Section 531, *Residential Cost Manual* (AH 531). To supplement this the assessor has developed cost standards for miscellaneous improvements and periodically conducts pool and patio studies based on the market value contribution of these improvements. New construction assessments for construction of this type are typically based on the results of those studies rather than actual costs or costs from the manual.

For convenience, all cost data has been incorporated into the assessor's computer system. In appraisals where the cost approach is used for commercial/industrial properties, the assessor generally uses cost standards published in *Marshall Valuation Service*.

RECOMMENDATION 14: Ensure that newly constructed pools are enrolled at market value.

Several of our samples reflected significant value differences for newly constructed pools. In each case, the BOE used either costs that were owner-reported or from published cost manuals. The county values were consistently lower, with differences ranging from 33 percent to 68 percent. The assessor's staff indicated that pool values varied depending on the region and that their assessed values were based on market studies. We requested copies of the pool studies for evaluation, but what we received were two

cost sheet supplements dated 1998 and 2000. These were basically local pool costs from several companies.

We recommend that the assessor ensure that newly constructed pools are assessed at market value.

Decline in Value

Section 51(a) requires that real property subject to the assessment provisions of article XIII A of the California Constitution be assessed at the lower of its base year value adjusted annually for inflation or the current market value, as defined in section 110. If the taxable value is less than the factored base year value, section 51(e) requires an annual review until the current market value again exceeds the factored base year value.

Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines. Riverside County is no exception; the assessor has taken a proactive approach to identify properties with declining values. He has made public appearances and issued press releases informing taxpayers of their rights and the steps to be followed to request a review of an assessment.

For the 2001-02 assessment year, the assessor enrolled 117,737 decline-in-value assessments. The total value reduction (difference between the factored base year value and current market value) was \$4,085,698,505. By comparison, the 2000-01 roll had 167,388 decline-in-value assessments with a total value reduction of \$5,916,179,158. The largest number of properties with value reductions occurred on the 1998-99 roll with 216,584 properties in decline-in-value status. The total amount of value decline for that year was \$8,106,148,200.

Although the number of properties with decline-in-value assessments is decreasing, these properties still represent a significant workload for the assessor's office.

As noted in our previous survey, the assessor has developed two similar computer programs to assist in discovering, valuing, and annually processing residential properties that have declined in value. These are effective programs that work well for the assessor. However, they are not readily adaptable to other property use types such as commercial, industrial, residential income, and agricultural properties. These properties require a more individualized and manual approach for discovery and valuation.

As of the 2001 lien date, the residential property records of those properties with decline-in-value assessments have a comparable sale listing included in their folders. Although most of the appraisals lack a narrative or any valuation comments, the sales used in the analysis are included in the group of sales listed. Oftentimes the specific sales relied upon in the analysis are highlighted.

Discovery of value declines in commercial, industrial, residential income, and agricultural properties is accomplished through several means. One such method is by appraiser familiarity with the appraiser's assigned geographic area and specialty. The appraisers are expected to be familiar with value trends within their areas of responsibility. In addition, taxpayer requests for review and assessment appeals trigger reviews for value declines. When such activity occurs, a review of not only the property in question, but also other properties with similar value attributes and/or locations, takes place.

The commercial, industrial, residential income, and agricultural property records for properties with decline-in-value assessments continue to be adequately documented. Most contain either a comparable sales listing or an income approach value indicator. For those properties that were subject to an assessment appeals process, the documentation is more comprehensive.

We noted numerous commercial, industrial, residential income, and agricultural properties that carried the same decline-in-value assessments from one year to the next. When the same value is carried over to the next year, the appraiser provides documentation in the form of a narrative statement. The statement notes that a general review of value trends has taken place and the results are summarized. When the review indicates that values appear to be generally stabilized and do not indicate a clear increase, then the appraiser recommends that the values for the particular property type in question be "rolled over."

Overall, the assessor's program for identifying decline-in-value properties, reviewing their values annually, and documenting the appraisals and reviews is highly effective. However, we did note a problem with a form used by the assessor in processing taxpayers' requests for review.

RECOMMENDATION 15: Revise the *Owner's Request for Review of Property Value* form to provide property owners more flexibility in the information they should provide when requesting a reappraisal.

When a property owner contacts the assessor requesting a review of his or her taxable value, the taxpayer is sent an information packet explaining the available options. Included in that packet is an *Owner's Request for Review of Property Value* form. The instruction portion of the application includes, among other items, the statements: "THIS FORM MUST BE FULLY COMPLETED AND RETURNED TIMELY ... BEFORE A REVIEW OF YOUR PROPERTY'S VALUE CAN BE MADE" and **FAILURE TO PROVIDE REQUESTED INFORMATION WILL RESULT IN DENIAL OF THE REVIEW REQUEST.** (Emphasis in original.) In Part I of the form, the following statement appears: "NOTE – THIS PART MUST BE COMPLETED & REQUESTED INFORMATION ATTACHED TO BE A VALID REQUEST."

For all property types, the application requires, in Part I:

- "D. This reappraisal request is made based upon the following: (Please be specific, include comparables, appraisals, and other evidence that supports your opinion of value. If there is a timely, independent appraisal on the property, please attach a copy.) "

For "COMMERCIAL/INCOME PRODUCING PROPERTIES," the application requires, in Part II:

- "A. Please provide the analysis that supports your opinion of value. If there is a timely, independent appraisal on the property, please attach a copy.
- B. Annualized income and expense statements for this subject property in a standard accounting format for your period of ownership up to three years.

- C. The existing rent roll (if any) including vacant space as of the date of appraisal.
- D. Comparable sales, listings, or rental data used to develop your opinion of value. "

We agree that the property owner should be required to provide information to demonstrate that the fair market value of the property is lower than the assessed value, especially when the assessor's office has as proactive a decline-in-value program as Riverside's. However, we believe the instructions and the requirement to provide specific types of data are likely to be intimidating to many property owners. A property owner may have good evidence that the assessed value is too high but could have difficulty filling out every item on the form.

For commercial/income producing properties, Item A appears to be a near-duplicate of Item D in Part I. The other items that are *required* for commercial and other income-producing properties may or may not be relevant to the particular property.

We reviewed request-for-appraisal applications employed by several other counties. None are as intimidating as the Riverside application or *require* as much specific information. In one case, the instructions tell the property owner to provide "...your opinion of value and the reason for your opinion of value."

By way of comparison, when a taxpayer appeals an assessment before the assessment appeals board, the taxpayer is not required to provide specific information such as the items quoted above. Instead, the taxpayer must provide whatever evidence he or she believes will convince the appeals board that the assessment should be lowered.

We recommend the assessor revise the *Owner's Request for Review of Property Value* to eliminate the requirements that specific types of evidence must be provided. The application should be revised to require that the property owner provide information that demonstrates that the fair market value of the property is lower than the assessed value.

Supplemental Assessments

Sections 75 et seq. require the assessor to appraise property at its full cash value on the date the property changed ownership or upon completion of new construction and issue a supplemental assessment. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated assessment that covers the portion of the fiscal year remaining after the date of change in ownership or new construction (the supplemental assessment). Practical guidelines for supplemental assessments resulting from the completion of new construction are published in rule 463.500.

The new value is the base year value for the property that changed ownership or was newly constructed. Section 75.11 requires a supplemental assessment to be made for the difference between this new base value and the taxable value on the current roll.

A new base year value for a change in ownership or the completion of new construction is reflected on a supplemental roll for the balance of the fiscal year in which the qualifying event occurs. If the event

occurs between the lien date and the beginning of the fiscal year, a supplemental assessment is also levied for the coming fiscal year.

The assessor uses an on-line computer system that processes supplemental assessments automatically. Appraisers value properties and complete a posting sheet which, after review, is submitted to office assistants for data entry. The computer system uses the effective date of the assessment to control the sequence and has built-in data entry validations that allow entries to be accepted only upon meeting certain conditions. Entries are posted daily. On the 26th of each month the assessor prints *Notices of Supplemental Assessments* for mailing by the first of the month. The supplemental bills are mailed 30 days after the supplemental notices are mailed.

Since appraisers submit only the new assessed values and usually do not manually calculate the supplemental assessments, they are not involved in any form of cancellation of the resulting bills. Likewise, the clerks involved in entering the values simply post the new value and allow the system to calculate the supplemental assessment. Since the assessor's system does not cancel supplemental assessments, it is up to the tax collector to cancel small supplementals. The tax collector typically cancels bills of less than \$5.00.

We found no deficiencies in the assessor's supplemental assessment program.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2001 roll, Riverside County had approximately 63,062 acres under CLCA contract. In addition, there are 3,222 acres in nonrenewal status. There are 1,992 parcels encumbered by 671 contracts. No cancellations have occurred in the county. The total assessed value for the land and living improvements was \$85,216,738, which represents 0.1 percent of the secured roll.

Valuation of CLCA Property

The valuation of CLCA properties is the responsibility of two senior appraisers, two real property appraisers, and one supervising appraiser. During our review, we found that the assessor's practices appear to be uniform and consistent among the district offices.

The assessor uses an automated CLCA valuation program that accurately calculates the restricted land value annually, checks section 423(d) comparisons for land only, and calculates property values for non-renewed contracts. Income information received from the agricultural commissioner's crop report and other sources is collected annually for use in the valuation of CLCA property. This includes all charge and expense data that is collected and then integrated into their own database for each crop and separated by each of the four districts (Coachella Valley, Palo Verde Valley, San Jacinto/Temecula Valley, and the Riverside/Corona District).

We reviewed several CLCA restricted and nonrenewal parcels and found that the assessor reviews these values annually and performs a comparison of restricted value, factored base year value, and current unrestricted market value. Individual assessments for CLCA properties are changed as needed, depending and based on the individual characteristics of that particular parcel. However, we found some instances where the assessor is not in compliance with applicable statutes.

RECOMMENDATION 16: Deduct a charge for capital replacement of irrigation wells that contribute to the income being capitalized.

The assessor properly includes wells as a component of the land value. However, the assessor does not allow for a return of the investment on the well in the expenses to be deducted from gross income to land. Instead, the assessor includes return on the well in the restricted value calculation for land.

AH 521 provides, in part, that the appraiser should deduct a charge for a return *on* and *of* the value of improvements from the income stream prior to capitalizing the income into the value of the restricted property. Wells are classified as land for property tax purposes and return on investment is included in the land capitalization rate. Nonetheless, a well is a wasting asset, and a charge for recapture must be subtracted from the income stream. If the above policy is not followed, overassessments will occur on restricted lands that have wells.

We recommend the assessor include in the CLCA appraisal program a procedure that will calculate the proper charges for replacement of irrigation wells that contribute to the income being capitalized.

Compatible Use Income

RECOMMENDATION 17: Utilize periodic questionnaires to obtain compatible use income data for CLCA property.

The assessor becomes aware of some compatible uses (e.g. radio or television antenna sites) by field observation and from receipt of building permits for new construction on enforceably restricted land and properly adds income attributed to these uses to the income to be capitalized. However, the assessor's CLCA questionnaire does not elicit compatible use income data.

When valuing CLCA property, section 423(a)(1) requires the assessor to capitalize an annual income based upon the rent actually received for the land and upon typical rental income received for land in similar use. Failing to account for compatible use income results in escape or underassessments. One comprehensive source of discovery would be the use of a CLCA questionnaire to elicit compatible use data from property owners.

We recommend that the assessor utilize periodic questionnaires to obtain compatible use income data.

Risk Rates

RECOMMENDATION 18: Develop appropriate risk rates for CLCA properties.

For CLCA properties, the assessor uses risk rates of 0.5 percent for irrigated and non-irrigated farmland and 1 percent for citrus orchards and grape vineyards. There is no documentation to support these rates.

AH 521 recommends a basic risk component of 1 percent as a standard guideline for purposes of developing the capitalization rate used in the valuation of CLCA properties. In addition, AH 521 notes that the risk component will vary according to the risk associated with each property and provides lists of factors that should be considered when establishing the risk rates for the various property types in the CLCA program.

We recommend that the assessor follow the guidelines in AH 521 and develop appropriate risk rates for agricultural properties encumbered by CLCA contracts.

Classification of Agricultural Wind Machines

RECOMMENDATION 19: Classify agricultural wind machines as fixtures as required by rule 122.5.

The assessor classifies wind machines as structures. This is a practice contrary to a recent amendment to rule 122.5 (e)(10).¹⁰ Rule 122.5 provides, in part, that when a wind machine is physically annexed to the realty with the intent that it be annexed indefinitely, it is to be classified as a fixture.

The assessor is aware of this rule and plans to properly classify agricultural wind machines as fixtures. We recommend that the assessor follow rule 122.5 when classifying agricultural wind machines.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11. Section 11 of article XIII of the California Constitution provides that land, and the improvements thereon, located outside a local government agency's boundaries are taxable 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 *Section 11* properties.

There are 271 Section 11 properties enrolled in Riverside County. The total Section 11 assessment for roll year 2001 (land and improvements) is less than \$13.4 million, which represents significantly less than 0.1 percent of the total roll value.

¹⁰ The amendment dealing with wind machines became effective February 6, 2002.

In our previous survey, we recommended that the assessor (1) review the nontaxable properties list for property owned by local governments and local government agencies but located outside their boundaries and (2) review and correct the assessments of improvements located on taxable government-owned lands.

Identifying taxable government-owned lands still remains an issue and the assessor has not addressed our concerns with regard to improvement values. For this reason, we are repeating our prior recommendations with an additional recommended revision to Section 11 assessments.

RECOMMENDATION 20: Review the nontaxable property list to discover taxable government-owned properties.

In our prior survey report, we recommended that the assessor identify and enroll taxable government-owned properties. However we found several properties that may have escaped assessment. The assessor's nontaxable property list contains parcels that are tax exempt and usually owned by government agencies. By comparing ownership and tax-rate area codes, we noted several parcels owned by government agencies that appeared to be located outside their boundaries. Since this may make them taxable government-owned properties, and therefore assessable in accordance with section 11, some properties may be escaping assessment.

We again recommend that the assessor review the nontaxable property list as a means of discovering taxable government-owned property.

RECOMMENDATION 21: Improve appraisal record documentation for the assessment of improvements on taxable government-owned lands.

In our previous assessment practices survey, we noted that the assessor enrolled incorrect improvement values on some Section 11 properties. However, during our review of appraisal records, we found that two of these incorrect improvement values reflected assessments at market value. The assessments were correct but were not documented as to the reasons these values were selected. From records reviewed, we found the assessor's lack of documentation to be an ongoing problem. We again recommend the assessor improve appraisal record documentation when enrolling taxable improvements on Section 11 properties.

RECOMMENDATION 22: Establish base year values for taxable government-owned property as described in Letter To Assessors No. 2000/037.

On June 15, 2000, the BOE published Letter To Assessors (LTA) No. 2000/037, which announced a change in the guidelines for the assessment of taxable government-owned properties. The guidelines in LTA 2000/037 supersede LTA Nos. 79/40, 79/187, and 82/136, and information presented in the 1990 Special Topic Survey *A Report on Section 11 and PERS Properties*.

The new guidelines advise the assessor to establish base year values for government-owned properties acquired after March 1, 1975, at the lower of current fair market value as of the date of change in ownership, or the 1967 assessed value multiplied by the appropriate Phillips Factor as of the date of change in ownership.

We found that the assessor was aware of the new guidelines pertaining to the assessment of taxable government-owned properties. However, due to limitations in the assessor's computer system, the new guidance has not yet been implemented.

We recommend the assessor correct his assessments of taxable government-owned properties to reflect the BOE's guidance.

Taxable Possessory Interests

A taxable possessory interest is a possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. In the case of privately-owned property, a property tax assessment is based on the fee simple value of the property. In the case of a taxable possessory interest, the assessment is based on the value of the rights actually held by the possessor; the rights retained by the public owner are not taxable.

All the non-residential possessory interests are valued by supervising appraisers in two district offices, Temecula and Palm Springs, and are monitored by one principal appraiser in Riverside. The possessory interest appraisal records are filed separately by use code (commercial and residential) and work assignments are based on the appraiser's area of responsibility. Leases creating the possessory interests are filed with the appraisal records. Possessory interests are assessed on the secured roll.

Discovery

Written requests are made annually to 70 public agencies for information needed to update the assessor's records and rental data. Follow-ups to these inquiries are made through telephone calls, letters, or personal visits. On the 2001 assessment roll, there were 11,655 taxable possessory interests, with a total roll value of \$2,202,395,517. This value represents approximately 2.4 percent of the section 601 roll value for the 2001 assessment year. The majority of possessory interest assessments (over 90 percent) are long-term leases of Indian land.

In our previous survey report, we recommended several changes to the assessor's practices regarding possessory interests. These changes were in the areas of improving discovery techniques, improving documentation on possessory interest records, and developing a file management system capable of tracking all possessory interests. We found the assessor's current practice of sending request letters to all government agencies to be adequate except for discovering possessory interests at the county fairgrounds. The assessor has improved documentation procedures on new possessory interest assessments. However, the assessor has only partially implemented a database for tracking airport possessory interests. For this reason, we are repeating parts of our earlier recommendation with additional recommendations addressing possessory interests.

RECOMMENDATION 23: Implement a tracking system for possessory interest accounts to flag reassessable events.

During our last review, we recommended that the assessor's file management system have the capability of alerting appraisers to expirations of terms of possession and other information indicating a change in

ownership. However, only the Temecula district office has implemented a database tracking system for airport possessory interests. We consider it important that the assessor establish a tracking system to indicate when a possessory interest has experienced a change in ownership. Therefore, we again recommend the assessor establish a possessory interest tracking system that will flag change in ownership events as they occur. This tool will inform the assessor when a term of possession expires and will flag the record indicating that a reappraisal is required.

RECOMMENDATION 24: Assess all taxable possessory interests.

We found that the California Department of Parks and Recreation has reported to the assessor six manufactured home pads with occupancies from 1990 to the present and monthly rents from \$20 to \$39 dollars. The assessor considered these manufactured home pads insignificant for assessment. Since the county's low-value property exemption does not cover this type of property, the failure to enroll these possessory interests has resulted in escape assessments. We recommend the assessor assess all qualifying possessory interests at the state parks and issue escape assessments as necessary.

Indian Lands

Land in which title is held in the name of the United States, or in trust for an Indian tribe or individual Indian, is exempt from property taxation. However, assessing lessees holding possessory interests in Indian lands is permitted. In Riverside County, there are currently seven separate and distinct Indian gaming operations that typically provide their customers with slot machines, gaming tables, and bingo. Since Indian gaming operations are located on lands held by the federal government for tribal usage, such operations are exempt from local property taxes if the gaming operation is managed and operated by the Indian tribe. However, if a non-Indian firm manages the gaming operation, it may constitute a taxable possessory interest.

The assessor has not requested or obtained the necessary information to determine whether these gaming operations in Riverside County are assessable as possessory interests in Indian lands. We suggest the assessor investigate the possibility that assessable possessory interests exist at the Indian gaming facilities. In so doing, attempts should be made to identify the operators and vendors that are leasing or doing business at such facilities to determine whether the use is tribal (exempt) or a non-Indian use (a taxable possessory interest).

Historical Property

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. Section 50280.1 stipulates 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.

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. 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 BOE;
- A risk component of two percent (four percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

As of the January 1, 2001 lien date, two economic units consisting of eight parcels in Riverside County were receiving the valuation treatment specified in sections 439 through 439.4. Our review of the assessor's historical property assessment program revealed three areas that require changes or improvement due to conflicts with provisions of the Revenue and Taxation Code.

RECOMMENDATION 25: Correctly calculate the factored base year value for historical properties.

We found that the assessor does not correctly calculate the factored base year value for enforceably restricted historical properties. In both economic units we reviewed, the initial value of the restricted property, whether it be the factored base year value or the restricted value, became the base year value for subsequent years and was multiplied by the California Consumer Price Index (CCPI) factor. The correct procedure uses the current market value as of the last change in ownership or new construction, or the 1975 lien date value multiplied by the CCPI factor as if the property were free of any contractual restriction.

The assessor's procedure could result in inaccurate assessments. We recommend that the assessor correctly calculate factored base year values for historical properties.

RECOMMENDATION 26: Implement consistent and correct procedures for the review of enforceably restricted historical property assessments.

The assessor's procedures call for an annual review of historical property assessments pursuant to section 439.2. The purpose of this review should be to confirm the restricted historical property value and to insure that the lowest of the three value approaches is enrolled as the assessed value. However, we found no documentation that the assessor enrolled the lowest of the three value approaches for subsequent years, or any evidence that an annual review was performed. The enrolled values appeared to have been rolled over to the next year with no consideration of the other approaches to value.

Additionally, the assessor's written procedures provide incorrect direction about the valuation of historical property. The procedures should be revised to demonstrate that all three approaches to value have been correctly calculated by the assessor's staff. We recommend the assessor implement consistent and correct procedures for reviewing historical property assessments.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the lessee (AH 504, pg. 89, June 2000). Improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant 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 reviewed and reflected in the property's assessment if they qualify as new construction.

When real property is reported on the business property statement, coordination between the real property and business property divisions of the assessor's office is very 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 escape and double assessments. The assessor's office must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled. Additionally, both divisions must agree on which items will be assessed by which division; otherwise escape and/or double assessments are inevitable. For these reasons, coordination between the real property and business property divisions of the assessor's office is very important.

We found no problems in the assessor's leasehold improvement discovery and appraisal program.

Timeshares

A timeshare estate is a right of occupancy in a timeshare project which is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right for a specific period of time 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 nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable nonreal property items (considered nontaxable). Examples of nonreal property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as a maintenance fee for the upcoming year.

The following table displays the number of assessments and the assessed value for the timeshare categories at the 2001 lien date:

	No. of Assessments	Assessed Value
Timeshare Uses	13,377	\$ 38,328,810
Timeshare Estates	61,381	\$412,031,357
Total	74,758	\$450,360,167

The right of occupancy in a timeshare estate project is coupled with an estate in the real property. The timeshare use project requires a license or contractual right of use to a timeshare interval that is not coupled with an estate in real property.

At the 2001 lien date, 38 timeshare projects were located in the county. A single developer of timeshare properties represents 45 percent of the marketplace. The assessor processed 74,758 timeshare assessments, composed of 61,381 timeshare estates and 13,377 in timeshare use projects. The assessor accumulates all the separate assessments in timeshare use projects and enters the total assessment on the secured roll in the name of the organizational owner or timeshare owner's association. Pursuant to section 619, each owner of a timeshare estate subject to separate assessment is notified of the amount of increased assessment. The county charges a fee for processing separate assessments for timeshare estates to cover the costs of separate assessment and timeshare estate subdivision.

In most timeshare properties the major influence on value is the season purchased. In Riverside County timeshare properties are located in the Coachella Valley region, which includes Palm Springs and its environs. There are basically three seasons, high (weeks 1 to 22, 51 and 52), swing (weeks 23-29, 37-50), and low (weeks 30-36). Weeks are numbered consecutively from the first week in January. The high season is the most desirable and the low season is the least desirable. Timeshare values have a direct correlation to season.

Although the general geographic region may be considered for regional trends of market conditions, comparable sales analysis is best restricted to other units in the same timeshare project. The regional market conditions reflect the age, stages, and phase of the projects. Many of the projects built during the 1980s have the lowest market appeal. Those projects built during the 1990s are of higher quality and have greater amenities. The older projects, originally designed for motel type use, represent almost all of the 19,000 timeshare parcels receiving decline-in-value assessments.

The assessor worked with developers to create procedures that facilitate compliance with the Revenue and Taxation Code and to help gather additional data. All documents concerning timeshares are forwarded to the assessor's special projects section. A senior title transfer technician receives and processes all timeshare documents. Reassessable transfers are compiled for each project and an inventory report is created.

The assessor maintains timeshare appraisal records in electronic files. A master file for each project contains building schematics, building costs, build-out projections by phase, inventories, and base year calculations. The sales comparison approach is used to value both timeshare estates and timeshare use interests. We found the timeshare assessment program to be administered in an effective manner.

Water Company Property

Water company property assessed on the local tax roll may include private water companies, mutual water companies, and portions of government-owned water systems. Each type presents different assessment problems.

Real property owned by water companies was assessed at \$1,220,346 for the 2001 lien date. This includes a total assessed value of \$783,071 for 57 mutual water companies and \$437,275 for regulated water companies.

RECOMMENDATION 27: Collect and review relevant data for the assessment of water company properties.

In our previous survey, we recommended that the assessor obtain and review lists from the Riverside County Department of Environmental Health and the State Department of Health Services, Division of Drinking Water. The assessor obtained the lists but has made only a limited review. We found 328 properties listed on the Riverside County Department of Environmental Health and 292 properties on the State Department of Health Services, Division of Drinking Water that may qualify as mutually or privately owned water companies. Due to limited resources, the assessor has not been able to conduct a systematic field canvass of the listed sites to determine assessability. Property used by these water companies may be escaping assessment.

We found the assessor does not receive copies of private water companies' annual financial reports submitted to the California Public Utilities Commission (CPUC). Although the assessor has requested that information from the water companies, he has received a poor response.

The assessor may contact the CPUC directly. The reports are public record, and the CPUC will furnish copies upon request. The reports contain the data necessary for developing an income approach and a Historical Cost Less Depreciation (HCLD) indicator of value. Without this information, assessments will not reflect on going property changes (new construction), resulting in escapes.

Although there are numerous private water companies, 57 mutual water companies, and five CPUC regulated water companies in Riverside County, none have filed a business property statement with the assessor. For the 2000 lien date, the assessor sent approximately 20 business property statements to various water companies and received only one response. We found that the assessor audited only two water companies between 1996 and 2001. No further request for information has been made. The assessor should continue to request data from water companies on an annual basis and enforce the penalty provision. The information obtained from the business property statement will provide an audit trail for the assessor and will ensure proper valuation.

We recommend the assessor implement procedures to collect and review all relevant data on water companies.

Mutual Water Companies

Since our last survey, the assessor has conducted a review of 46 mutual water companies. In the course of this review, the assessor searched for double assessments and made roll changes where needed to comply with the BOE advice to enroll either zero value or a minimal value for mutual water company property, when the company shares are appurtenant to the parcels they serve.

Regulated Private Water Companies

RECOMMENDATION 28: Reappraise regulated water companies.

The assessor was unable to find assessments for two of the five regulated water companies identified on the list furnished by the CPUC. The assessments made for the other three regulated water companies were based on cost information over 20 years old.

Without current data, it is not possible to assess the water companies correctly. Both current and historical data are needed to establish adjusted base year values and current market values so the lower of the two can be enrolled.

It appears that the current assessments are based on the historical cost less depreciation (HCLD) approach. However, it is not possible to calculate either the HCLD or the adjusted base year value without information on additions and deletions since the base year value of the property was established. In addition, it is necessary to have current information on possessory interests, noncapitalized leased properties, contributions in aid of construction, advances for construction, deferred taxes, and exempt capitalized property. Proper treatment of these and other items are discussed in Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights* (AH 542).

HCLD is a preferred approach for water companies whose incomes are closely regulated by the CPUC. However, as discussed by AH 542, the reproduction cost less depreciation and replacement cost less depreciation approaches are appropriate in some circumstances. The sales comparison approach may be preferable when comparable sales data are available, but lack of comparable sales of water companies normally limits this approach. Since regulated private water companies are normally purchased in anticipation of future income, the income approach is preferred when reliable sales data of comparable properties are not available and/or the cost approaches are unreliable.

We urge the assessor to review and reappraise the regulated water companies in Riverside County according to the standards and directions provided by AH 542.

Written Procedures

RECOMMENDATION 29: Develop written procedures for assessing water companies.

The assessor is aware of the acceptable appraisal practices for the valuation of water companies. However, there are no written procedures to guide the work of his staff. Assessment of properties owned by water companies is complicated. Without written procedures, the appraisers who perform this work lack an authoritative resource to direct their efforts. We believe that development of step-by-step written procedures that describe the appraiser's duties and responsibility would improve consistency among these assessments and facilitate transition should a change in staff occur.

Mineral Property

On the 2001 assessment roll the assessor enrolled a total of 135 secured mineral assessments with a total value of approximately \$58 million. There were 49 unsecured mining assessments with a total value

of approximately \$622,000. Other tangible property associated with mineral assessments was assessed for approximately \$300,000. A senior appraiser is responsible for the appraisal of mining properties. Most of the mining property files contain both a lease agreement and an environmental impact report. The assessor appraises mining properties in accordance with rule 469. However, we found several areas that warrant improvement.

RECOMMENDATION 30: Adequately document mineral property files.

The files for mineral properties that experience a change in ownership do not contain adequate documentation to support the new base year values. In some of the appraisal records neither the *Business Property Statement* (Form BOE-571-L) nor the *Change in Ownership Statement* (Form BOE-502-A) could be found. While there are notes and new appraisals in some files indicating the creation of a new account, we could not find the accompanying change in ownership filing. Without adequate documentation, it is difficult to track the base year value and accurately value the property at subsequent lien dates.

We also found that some aggregate production reports and mining production reports lack the pertinent information necessary to properly value the mineral property. Several examples of the *Aggregate Production Report* (Form BOE-560-A) did not contain information such as production data, reserve estimates, and cost information. This information is necessary to complete an accurate appraisal of a mineral property. In one instance the taxpayer refused to furnish the data requested, claiming proprietary information protection.

The full value or fair market value of producing mineral rights is determined by valuing the estimated quantities of proved reserves that can reasonably be expected to be produced during the time period the rights are exercisable. The valuation of proved reserves is based on such information as reserve estimates, product prices, operating expenses, capitalization rates, and the expected time of possession/economic life of the property.

Section 441(a) requires every person owning personal property to file a property statement upon request by the assessor, and section 441(d) requires every person to make available to the assessor for examination, information or records regarding his or her property or any other personal property located on the premises he or she owns or controls. This information includes details of property acquisition, construction and development costs, rental income, and other data relevant to the determination of an estimate of value considered as information essential to the proper discharge of the assessor's duties. Section 470(a) also requires taxpayers to make available to the assessor true copies of business records relevant to the amount, cost, and value of the property he or she owns or controls. Without accurate information, any base year value calculated may not correctly reflect the full market value of the mineral property involved.

We recommend that the assessor ensure that mineral producing property appraisal records contain adequate supporting documentation.

RECOMMENDATION 31: Adjust the value of mineral properties for changes in the amount of proved reserves.

We found some assessments where the assessor determined the current base year value by only adjusting the prior year's value for inflation and depletion. No effort was made to identify any new reserves.

Rule 469(e)(1)(B) requires the assessor to adjust base year values to reflect any increase in proved reserves that occurred following commencement of production and that was caused by changed physical, technological, or economic conditions, in addition to the mineral rights already assessed. Proved reserves reported by operators should be updated annually. River/stream mining, where the reserve is constantly replenished by the river/stream, is a typical example where the assessor's current practice of adjusting for only annual depletion without any consideration to new reserves could result in the property being incorrectly valued.

Section 51 requires the assessor to value taxable real property at the lesser of its base year value, adjusted annually for inflation, or the current market value as defined in section 110. The assessor should determine the inflation-adjusted base year value taking into account the annual production, changes in reserves, any new construction and property removal. This value should then be compared with the current market value, with the lesser of the two values enrolled in accordance with the provisions of section 51.

We recommend that the assessor assess mineral producing properties in accordance with the provisions of section 51 and rule 469(e)(1)(B).

RECOMMENDATION 32: For mineral properties, ensure that the economic life of the property used in the appraisal matches the anticipated term of possession.

In some mining property assessments, the assessor has used an economic life to value the minerals that is different from the anticipated term of possession or the terms of the lease agreement. The assessor should use an anticipated term of possession that matches the terms of the lease agreement, including options for renewal or extension. The economic life of the property used in the mineral valuation should match this anticipated term of possession.

Section 61(b)(2) requires that at the end of the anticipated term of possession the assessor establish a new base year value, based on a new reasonably anticipated term of possession. Using an economic life longer than the anticipated term of possession could lead to an overassessment of mineral property. We recommend that the assessor value mineral properties using the anticipated term of possession as the projected economic life.

Pipeline Rights-of-Way

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

through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, guiding county assessors in the valuation of intercounty pipeline lands and rights-of-way.

Riverside County has one intercounty pipeline company. We found the assessment of the right-of-way to be consistent with statutory requirements.

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.
- Audit of taxpayers whose assessments are based on information provided in property statements.

The assessor annually processes approximately 38,500 business property statements; completes about 430 mandatory audits and 300 nonmandatory audits; and assesses 1,452 aircraft, 13,899 vessels, and almost 48,000 manufactured homes.

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.

Section 469 provides that the assessor shall audit a taxpayer's profession, trade, or business once every four years whenever the locally assessable trade fixtures and business tangible personal property have a full value of four hundred thousand dollars (\$400,000) or more. Rule 192 requires that the \$400,000 threshold be reached in each of four consecutive years for an account to be a mandatory audit.

As of the January 1, 2002 lien date, there were 1,722 mandatory audit accounts. We examined a number of audits as part of our review. We found that audits are completed in a timely manner, the quality of the audits is consistent with generally accepted auditing standards, and the audit documentation was sufficient to support the audit findings.

The assessor also completes approximately 300 nonmandatory audits annually. These audits are of companies whose full value is below the mandatory threshold of \$400,000 for four consecutive years. These companies may have inconsistent reporting histories or other anomalies that make them candidates for further examination.

RECOMMENDATION 33: Enroll all escape assessments and overassessments discovered during an audit.

The assessor does not enroll small escape assessments and roll corrections. While this may be expedient, there is no basis in law for failing to enroll escaped property discovered by audit.¹¹ Section 531 specifically states:

"If any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment."

Furthermore, section 469 provides that if the result of an audit discloses property subject to an escape assessment, the assessee is entitled to appeal the assessment of all the property at the location of the trade, profession, or business. The assessor's failure to enroll escapes makes it very difficult for the assessee to exercise that right of appeal.

We recommend that the assessor discontinue the arbitrary minimum audit enrollment policy and enroll all escape assessments and overassessments discovered during an audit.¹²

Business Property Statement Processing

Section 441 requires each person owning taxable personal property (other than manufactured homes) having an aggregate cost of \$100,000 or more to annually file a business property statement with the assessor, and any other person must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including commercial, industrial, agricultural, boats, and certificated aircraft.

While most businesses receive the general business property statement (Form BOE-571-L), several variations of this form have been developed for other business types to facilitate reporting and assessment. Examples of these business types include agricultural enterprises, leasing companies, apartment properties, and financial institutions.

We reviewed the assessor's property statement processing procedures and a sample of property statements. With the exception of the recommendation for improvement noted below, we found no problems with the business property statement processing function.

RECOMMENDATION 34: Review residential income properties to discover assessable personal property.

The assessor has approximately 200 residential income or apartment personal property accounts enrolled for the 2001 lien date. However, we found that the assessor had enrolled approximately 4,500

¹¹ The low-value exemption in Riverside County applies to the total value of a specific parcel or account, and cannot be applied to a portion of the property, such as an escape assessment.

¹² Subsequent to our survey, the Legislature added section 531.9 that, effective January 1, 2003, will permit a county board of supervisors to prohibit enrollment of small escape assessments under specified circumstances.

residential parcels of four units or more. A number of these parcels likely contain personal property that is assessable.

Section 616 requires the assessor to inventory all property within his/her county. Given the large discrepancy between apartment personal property accounts and real property accounts, it is likely that some apartment property is escaping assessment. We recommend that the assessor review residential income properties to discover assessable personal property.

Machinery and Equipment Valuation

Assessors' offices use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that, in the judgment of the BOE, will promote uniformity in appraisal practices and in assessed values throughout the State. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The AH 581 contains price index factors for various property categories, a percent good table for commercial and industrial equipment, and valuation tables for special property categories.

The price index factors are designed to calculate the reproduction cost new of property based on the type of property and its historical cost in the year of original acquisition. Reproduction Cost New (RCN) is an estimate of the amount, in current dollars, required to purchase a new replica of the property being assessed at the current lien date.

The percent good factors estimate the average percentage of remaining value of the property over its estimated economic life after allowance for normal depreciation. The arithmetic product of the price index factor and the percent good factor (for a given year of acquisition) is commonly known as a valuation factor. The proper application of a valuation factor to a reported historical cost yields an estimate of taxable value known as Replacement Cost New Less Depreciation (RCNLD). This is the preferred method of valuing business property in a mass appraisal environment.

The equipment valuation factors and service lives used by the assessor for the January 1, 2001, lien date were those recommended by the California Assessors' Association. We tested the equipment valuation factors programmed into the business property computer processing system. We found the calculated results consistent with the guidance provided by the AH 581 with the following exception.

RECOMMENDATION 35: Use AH 581 as intended when valuing older machinery and equipment.

The percent good factors in AH 581 are based on the assumption that as business equipment ages, it gradually loses its ability to earn a profit for its owner. In some cases equipment wears out physically to the point where it is not economic to repair it. In other cases, the equipment may be in excellent condition physically but new technology, a changing market relative to the type of equipment, and other factors make the equipment uneconomic. Some equipment, when no longer economic to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal.

Factors in AH 581 assume that on the average equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to 1 percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment but is still in use.

The CAA tables employed by the assessor use AH 581 percent good factors except that they employ minimum valuation factors for older equipment that limit the table percent good to that corresponding to an age equal to 125 percent of the assigned service life of the equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service left.

There is no question that some older equipment is worth much more than 1 percent of replacement cost new, just as some newer equipment is worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to find fair market value. However, when using a mass appraisal tool such as the AH 581 tables, it is important to use the tables as presented.

Use of arbitrary minimum valuation factors may value some equipment correctly but will substantially overvalue most items of older equipment. Accordingly, we recommend the assessor use the AH 581 as intended in order to avoid overvaluations.

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 taxable situs, reporting errors by lessees and lessors, taxability, 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*.

We found that the assessor has an effective program for tracking, valuing, and assessing leased equipment.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Most manufactured homes are classified as personal property and enrolled on the secured roll. If the home is situated on an approved permanent foundation system that meets the requirements of Health and Safety Code section 18551, it is real property and it is not assessed as a manufactured home.

Manufactured homes located in a manufactured home park on leased or fee owned land, and most manufactured homes located outside of a developed park, are valued by the manufactured home section. This section is located in three field offices - Perris, Palm Springs, and Blythe. The supervising

appraiser from the Perris office makes a weekly trip to the Palm Springs office to collect and assign work and to assist in resolving any problems. He also travels to the Blythe office when necessary.

The assessor becomes aware of assessable manufactured homes by (1) information from the state Department of Housing and Community Development (HCD), (2) dealer reports of sale, (3) tax collector tax clearance certificates, (4) notices of voluntary conversion of licensed manufactured homes to the local property tax roll, or (5) building permits.

Once this information is received, an assessment technician enters the appropriate data into the computer system and attempts to determine whether the manufactured home is already enrolled. If already enrolled, the assessment technician will give the data and appraisal record to an appraiser. If there is not a match, the assessment technician will give the data to an appraiser to field check, inventory, and value.

For the 2001-02 assessment year there were 13,622 manufactured homes enrolled with decline-in-value-assessments. There are 363 manufactured home parks in the county comprising 35,410 spaces for locally assessed and licensed manufactured homes. Additionally, there are recorded subdivision tracts that are solely for manufactured homes.

Classification

For the 2001-02 roll year, the assessor identified 47,908 assessable manufactured homes. However, the supervising appraiser of the manufactured homes section believes that there are in excess of 60,000 manufactured homes that are inventoried by the assessor and assessed. The discrepancy of approximately 12,092 manufactured homes not being identified as manufactured homes is because manufactured homes on parcels of 10 acres or more are coded as agricultural parcels and not manufactured home parcels. Consequently, these manufactured homes are improperly classified as real property.

RECOMMENDATION 36: Classify manufactured homes as personal property.

Section 5801(b)(2) provides that manufactured homes shall be classified as personal property unless affixed on an approved permanent foundation. This is explained in detail in LTA No. 92/57 and in Assessors' Handbook Section 511 (AH 511), *Assessment of Manufactured Homes and Parks*. The assessor's operations manual (section 4210.1) also states that "manufactured homes are to be considered personal property, irrespective of their manner of attachment to the land unless attached to an approved permanent foundation."

However, we found that all manufactured homes were being assessed as real property structures, and not as personal property, irrespective of their manner of attachment to the land.

We recommend that the assessor classify all manufactured homes as personal property unless installed on an approved permanent foundation.

Valuation

RECOMMENDATION 37: Revise manufactured home assessment procedures by placing greater emphasis on recognized value guides.

In our previous survey, we suggested that the assessor revise his manufactured home assessment procedures by placing a greater emphasis on the use of recognized value guides to determine fair market value. The assessor has partially implemented this suggestion through the use of the Cap Residential – Rural Appraisal Record, a form that uses the AH 531.35. In addition, the assessor uses an in-house-produced comparable sales spreadsheet showing reported purchase prices. In general, the assessor relies on the comparable sales listed on the spreadsheet, which are generally higher than the values determined by the AH 531.35 and the Kelley Blue Book. These spreadsheet values are the reported selling prices of manufactured homes in rental parks, without adjusting for site value. After the base year value is thus established, the assessor adjusts it annually by the current California Consumer Price Index. In the majority of cases, this factored base year value is not later reviewed for possible decline-in-value adjustment. Although some manufactured homes were given reduced assessments for the 2001-02 roll, many others were not.

Section 5803(b) states that the full cash value shall not include any value attributable to the particular site where the manufactured home is located that would make the sale price of the manufactured home at that location different from some other location on rented or leased land. It further provides that the assessor shall take into consideration recognized value guides for manufactured homes. Section 5813 requires the assessor to annually enroll values for manufactured homes at the lesser of the factored base year value or the full cash value as defined in section 5803 taking into account reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value.

The recognized value guides referred to in section 5803 all indicate that the market value of manufactured homes typically decreases over time, yet the assessor does not follow these indications.¹³ In the absence of a study to measure the value attributable to the site, the assessor's spreadsheet data should not be relied on to produce reasonable estimates of current market value for manufactured homes, whether the value estimate is for the purpose of establishing a new base year value or determining the lien date current market value. Doing so could result in erroneous assessments of manufactured homes.

We recommend the assessor determine both base year values and lien date current market values for manufactured homes by reference to a recognized value guide.

¹³ The recognized value guides listed in section 5803 are the Kelley Blue Book, Manufactured Housing Used Value Guide, and the N.A.D.A., Manufactured Housing Appraisal Guide. Effective January 1, 2003, the guide published by the BOE is also listed as recommended value guide.

Enrollment

RECOMMENDATION 38: Enroll changes in ownership as of the date reported by the Department of Housing and Community Development.

In our sample of manufactured home transfers, we observed that changes in ownership were occasionally enrolled at a date later than the effective date reported by the HCD. We found no documentation in the appraisal records indicating why those changes in ownership were processed using a later event date. Enrolling changes in ownership at a later effective date results in incorrect supplemental assessments. We recommend that the assessor enroll changes in ownership as of the transfer date reported by the Department of Housing and Community Development unless there is a documented reason for using a different date.

Resident-Owned Manufactured Home Parks

RECOMMENDATION 39: Assess share transfers in cooperatively-owned manufactured home parks as reassessable changes in ownership.

During our review of cooperatively-owned manufactured home parks, we encountered one park that became resident-owned in 1989. The residents own the park as a cooperative, with each resident owning a share. In our review of this manufactured home park, we found 13 manufactured homes that experienced reassessable changes in ownership between 1995 and 2001. When these manufactured homes transferred ownership, so did the corresponding cooperative share interest in the park. However, no reassessments were made and there were no remarks made in the appraisal record.

Section 61(i) defines the transfer of stock of a cooperative housing corporation as a reassessable change in ownership. When shares transfer ownership, they should be processed as reassessable changes in ownership.

We recommend that the assessor search for cooperatively-owned and resident-owned manufactured home parks and assess share transfers as reassessable changes in ownership. However, assessments should be issued only prospectively. Recent legislation (AB 1457, Ch. 772, Stats. 2001) precludes the assessor from issuing supplemental or escape assessments for such changes in ownership occurring between January 1, 1989 and January 1, 2002, if the assessor failed to levy any assessments prior to January 1, 2000.

RECOMMENDATION 40: Value resident interests in manufactured home parks by allocating the residual sale price to the land and common structures.

In resident-owned manufactured home parks, the assessor does not assess the residents' interests according to the BOE-recommended methodology.

The assessor determines a land value for the site, and then allocates the remainder of the purchase price to the manufactured home, as the market value of the home.

The AH 511, *Assessment of Manufactured Homes and Parks*, contains a section describing the change in ownership procedure for residents' interests in spaces. The AH 511 recommends that if the purchase price was negotiated in the open market at arm's length, then the assessor should enroll the entire amount in the combined assessments of the manufactured home and the underlying interest in the park. The most reasonable way of allocating the value between the two assessments would be to extract from the purchase price the value of the manufactured home, using one of the recognized value guides, and then assign the residual purchase price to the interest in the park. This method of allocation will ensure that the market value attributable to the location of the space being transferred within the park is recognized.¹⁴

In addition, Letter To Assessors No. 99/87 recommends that a resident's ownership share value of the park should be derived by subtracting the market value of the manufactured home from the combined price paid for the manufactured home and the share or interest in the park. This residual value would be the share value and this is the value that should be enrolled, not an equalized or average value of the shares or interests transferred that year.

We recommend the assessor value residents' interests in manufactured home parks by deducting from the sale price the market value of the manufactured home, and then allocating the residual to the land.

Aircraft

Section 5364 provides that the BOE shall establish standards and fixed guides for the valuation of aircraft or, after a public hearing, review and approve commercially available guides to be used by the assessor in the assessment of aircraft at market value. On January 8, 1997, the BOE approved the *Aircraft Bluebook-Price Digest* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Aircraft Bluebook-Price Digest*. As stated in LTA No. 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate fair value for the local market.

For the 2001-02 assessment roll, the assessor assessed a total of 1,452 general aircraft with a total valuation of \$152,157,184. The assessor has the *Aircraft Bluebook-Price Digest* valuation guide on computer disk for computing the appraisals of general aircraft. The value is calculated by reducing the list price by 10 percent and making appropriate adjustments. Adjustments are made for engine hours, extra equipment, sales tax, and general aircraft condition.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

¹⁴ Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks*, pages 65-68.

The historical aircraft exemption is not automatic. The owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, and pay a filing fee of thirty-five dollars (\$35) upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

RECOMMENDATION 41: Grant the historical aircraft exemption only to individual owners of such aircraft.

We found in our review of historical aircraft exemptions granted by the assessor that several exemptions had been allowed for aircraft owned by corporations.

Section 220.5 requires that the assessee be an individual owner who does not hold the aircraft primarily for purposes of sale.

The assessor's practice has resulted in improper exemptions of some aircraft. We recommend that the assessor limit the exemption for historical aircraft to individual owners.

Vessels

For the 2001-02 assessment year, the assessor enrolled a total of 13,906 vessels with a value of \$124,067,938.

To enroll all vessels the assessor developed a program to extract information from the Department of Motor Vehicles (DMV) database of registered boats. The program selects all boats with a DMV value over \$2,000 domiciled in Riverside County and prints a *Notice of Assessment* document, which is mailed to the owner of record. A copy of the *Notice of Assessment* is placed in the file for each boat account.

RECOMMENDATION 42: Include vessel type, model, condition and additional equipment on the vessel appraisal record.

The information that the assessor reads off the DMV computer tape does not include enough information to allow a direct comparison with the *ABOS Marine Bluebook*.¹⁵ The information extracted from the DMV tape does not identify the specific model name or type of vessel. Our review of a sample of vessel assessments determined that there are significant differences between the assessed value and the average retail value as listed in the *ABOS Marine Bluebook*.

The DMV data are limited to make, year of manufacture, and boat length. When making reference to the *ABOS Marine Bluebook*, there are often several models with the same make and length.

¹⁵ The *ABOS Marine Bluebook* is a generally accepted guide used for determining the fair market value of vessels.

Information about special equipment or updates to the boats is not in the assessment record. The assessor assumes that the DMV sales price includes the value of any upgrades.

Section 228 requires the assessor to enroll at market value all taxable vessels. Since there is inadequate information in the DMV record, the assessor should not use the DMV reported cost as an indicator of fair market value. Sending Form BOE-576-B, *Vessel Owner's Report*, to owners of boats would facilitate the collection of these data.

We recommend that additional information be added to the permanent record of the vessel such as type of vessel, model number, condition, and additional equipment or features.

RECOMMENDATION 43: Apply depreciation percentages to vessels according to type.

We found that the assessor conducts a thorough, well-documented study of depreciation rates for various types of vessels. However, due to computer programming limitations, he uses only two depreciation rates for the calculation of assessments: one for personal watercraft and one for all other vessels. Information to compute these depreciation percentages is taken from the *ABOS Marine Bluebook*.

Personal watercraft have such a high depreciation rate that the average depreciation rate used for all other vessels is not applicable. For all other vessels, the depreciation rates for several vessel types are averaged to arrive at a composite rate.

According to Assessors' Handbook Section 576, *Assessment of Vessels*, "Vessels are valued at their fair market value every year as of the January 1 lien date." When the depreciation rate is computed correctly each year and applied to each type of vessel, it is reasonable to assume that a market value appraisal is being performed. When a composite average depreciation rate is applied to all vessels, the difference between the assessed value and the market value for different types of vessels is increased each year. Those vessels with a depreciation rate lower than the average will be underassessed and those vessels with depreciation rate higher than the average will be overassessed. We recommend that the depreciation rate for vessels be computed and applied to the vessels by type.

APPENDICES

A. County Property Tax Division Survey Group

Riverside County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Michael Lebeau Principal Property Appraiser

Survey Team Supervisor:

Claudia Tendal Supervising Property Appraiser

Survey Team Leader:

John Corum Senior Specialist Property Auditor Appraiser

Survey Team:

Simeon Okoroike	Senior Petroleum and Mining Appraisal Engineer
Yvette Barrios	Associate Property Appraiser
David Dodson	Associate Property Appraiser
Bob Donay	Associate Property Appraiser
Michael Hinojos	Associate Property Appraiser
Tina Krause	Associate Property Appraiser
David Mann	Associate Property Appraiser
Tom McClaskey	Associate Property Appraiser
Laura Ruiz	Associate Property Appraiser
Mark Winters	Associate Property Appraiser
Beverly Lawson	Associate Property Auditor Appraiser
Delia Garcia	Tax Technician II
Rick Kozman	Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹⁶ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

The BOE's County Property Tax Division (CPTD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹⁷

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

For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:

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

¹⁶ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

¹⁷ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records ; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made .

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

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

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

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

15644. Recommendations by board.

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

Rule 371. Significant assessment problems .

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



**GARY L. ORSO
COUNTY OF RIVERSIDE
ASSESSOR-COUNTY CLERK-RECORDER**

Assessor
P.O. Box 12004
Riverside, CA 92502-2204
(909) 955-6200

County Clerk-Recorder
P.O. Box 751
Riverside, CA 92502-0751
(909) 486-7000

<http://riverside.asrclkrec.com>

March 31, 2003

Mickie Stucky
Property and Special Taxes Department MIC: 62
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Ms. Stucky:

Pursuant to Section 15645 of the California Government Code, the following constitutes the Assessor's response to the recommendations presented in this Assessment Practices Survey for Riverside County.

As one of the fastest growing counties in the state, if not the nation, we are constantly challenged with balancing quantity of workload versus quality. Every attempt will be made to follow up on all recommendations. However, priorities tend to dictate what recommendations will be acted upon. I would like to thank my hard working staff for their efforts in successfully producing a quality assessment roll year after year.

I would also like to thank Claudia Tendal and her staff for making this survey a painless experience.

Very truly yours,

/s/ Gary L. Orso

Gary L. Orso
Assessor-County Clerk-Recorder

GLO:JNH:blh

Enclosure

Riverside County Assessor

**Response
To the March 2003
Assessment Practices Survey
Conducted by the
California State Board of Equalization**

RECOMMENDATION 1

Develop a complete operations manual to provide guidelines for the assessor's staff.

Response:

A strategic plan for the office is due for completion in 2003. A part of this plan will include the updating of the Operations Manual. Care will be taken to prioritize the updates concentrating on procedures that are most important and less likely to disappear with changing technology and/or a new property system.

RECOMMENDATION 2

Obtain fire reports from local fire departments to discover property eligible for disaster relief.

Response:

An attempt will be made to contact all fire departments in the county to request regular fire damage reports.

RECOMMENDATION 3

Grant disaster relief only for timely-filed applications pursuant to section 170(d).

Response:

With the recent legislative changes, the filing period is now twelve months or the reassessment may be initiated by the assessor. We will monitor disaster reassessments for timeliness.

RECOMMENDATION 4

Prorate disaster relief in accordance with section 170(e).

Response:

Proration rules and procedures will be reinforced as well as the recent legislative changes regarding disaster relief. This will be accomplished through staff meetings, training sessions, and new written procedures.

RECOMMENDATION 5

Request that the Board of Supervisors update the disaster relief ordinance to reflect recent legislative changes to section 170.

Response:

A revised ordinance has been approved by the Board of Supervisors.

RECOMMENDATION 6

Develop written procedures to ensure that disaster relief claims are processed in accordance with section 170.

Response:

Updating and developing written procedures will be part of the implementation of the strategic plan mentioned in response to recommendation number one. The procedures will incorporate all recent legislative changes in the area of disaster relief.

RECOMMENDATION 7

Reference the controlling statutes when enrolling penalties.

Response:

The Assessor's office will work with the Information Technology department to change the wording in the remarks column of the assessment roll from "penalty" to "penalty per Sec. ____, Revenue & Taxation Code".

RECOMMENDATION 8

Ensure that all entities receiving a Religious Exemption have an approved claim in the file.

Response:

We are checking our Religious Exemption files to determine which files do not have an original Religious Exemption claim. After we have determined which files, we will retrieve the archived files in search of the missing claims. If the claims are still not recovered, the individual claimant will be notified and a new claim will be requested from them.

To ensure this does not occur in the future, the claim will be placed in the area of the file that is not purged.

RECOMMENDATION 9

Submit to the tax collector a list of persons to whom racehorse tax returns were mailed, as required by Property Tax Rule 1045(a)(2).

Response:

This recommendation will be implemented starting with the 2003 lien date.

RECOMMENDATION 10

Enroll the verified sale price as required by Property Tax Rule 2.

Response:

Current rounding practices when posting change in ownership values will be reviewed and adjusted to reflect the actual reported purchase price cash equivalent when there is no preponderance of evidence showing a value deviation of 5% more or less.

RECOMMENDATION 11

Maintain and grant public access to the transfer list as required by section 408.1.

Response:

The Systems section of the Assessor's office will maintain a list of transfers of any interest in property, other than undivided interests, within the county, which have occurred within the preceding two-year period. The listing will be revised on the 30th

day of each calendar quarter and it will be open to inspection by the public in all assessor's office locations.

RECOMMENDATION 12

Revise the transfer list database to include the names of the transferors and transferees as required by section 408.1.

Response:

Section 408.1 of the R & T code states that the transferor and transferee shall be included in the transfer list "if available". The computer system that the Assessor's office is using does not have this information readily available. It would require significant database and programming changes.

RECOMMENDATION 13

Process transfers due to corporate changes in control in a more timely manner.

Response:

We have, during the past year, instituted a new Workflow transfer processing program designed for efficiency and accuracy. We have also added additional Title staff positions to handle the increase in workload due to an increase of daily recordings.

We recognize that some deficiencies may still exist. However these deficiencies are being addressed. We have revised and refined several of our procedures in order to better address the LEOP transfers.

Our current procedures draw information from three sources. Our investigative process in conjunction with the BOE's suggestion to incorporate the BOE's LEOP "Accumulative Change in Control List" would be a welcome addition to our list of resources. That addition, together with additional dedicated staff, should eliminate the untimely processing of the Corporate changes of ownership.

RECOMMENDATION 14:

Ensure that newly constructed pools are enrolled at market value.

Response:

We concur that pools should be enrolled at market value. Where market value and costs are not the same we will provide market studies to support our values.

RECOMMENDATION 15

Revise the "Owner's Request for Review of Property Value" form to provide property owners more flexibility in the information they should provide when requesting a reappraisal.

Response:

We will review our form with the goal of providing more flexibility for property owners but still requesting sufficient information to properly value the affected property.

RECOMMENDATION 16:

Deduct a charge for capital replacement of irrigation wells that contribute to the income being capitalized.

Response:

We concur with this recommendation. In compliance with Assessors' Handbook 521 p. II-23, the office will develop and institute a procedure to deduct a charge for the return of the well value from the income attributable to the real property on CLCA properties.

RECOMMENDATION 17:

Utilize periodic questionnaires to obtain compatible use income data for CLCA properties.

Response:

We concur with this recommendation. The office will revise our periodic questionnaire to specifically ask about compatible uses and compatible use income on CLCA properties.

RECOMMENDATION 18:

Develop appropriate risk rates for California Land Conservation Act properties.

Response:

We have developed risk rates on a crop-by-crop basis based upon the amount of risk to grow a specific crop. As time and workloads permit, we will review our risk rates on individual CLCA properties to determine if they differ from the norm.

RECOMMENDATION 19

Classify agricultural wind machines as fixtures, as required by Property Tax Rule 122.5.

Response:

We are in the process of transferring assessment responsibility for these wind machines to the Business Division for reclassification and enrollment as fixtures.

RECOMMENDATION 20:

Review the non-taxable list to discover taxable government-owned properties.

Response:

We concur with this recommendation. Relevant procedures have been amended, and added to the A-C-R operations manual to ensure compliance, and structure to the process.

We will work with our systems section to identify all non-taxable agencies that own property outside of their boundaries.

RECOMMENDATION 21:

Improve appraisal record documentation for the assessment of improvements on taxable government-owned lands.

Response:

We concur with this recommendation. The Assessor's office will continue to strive to enhance the documentation of taxable improvements, which are located on Section 11 lands. Individual parcel files containing Section 11 improvement values will be reviewed, and documented accordingly.

RECOMMENDATION 22:

Establish base year values for taxable government-owned property as described in Letter to Assessors No. 2000/037.

Response:

We concur with this recommendation. In order to begin to monitor and establish base year values, the Lotus computer program (under whose data base Section 11 properties were stored) had to be redesigned. In fact, another program had to be developed to accommodate the needed changes for 2003. This new program should be

functional within the next few months, and service the base year needs of Section 11 properties.

RECOMMENDATION 23

Implement a tracking system for possessory interest accounts to flag reassessable events.

Response:

The survey correctly indicated that the majority of possessory interest assessments in Riverside County are created to value Indian leasehold real property interests. As these leases are mostly long term and transferred via traditional recording methods, we believe the majority of these leases can be tracked readily through the Recorder Index system. It would be a duplicate effort to maintain this information in a separate tracking system.

A tracking program for agency possessory interests, those found annually through a canvas of the various state, federal, and local government agencies, is being developed now. A tracking system has already been established for the airport possessory interests. Most airport leases represent the shorter lease terms and have to be reassessed more frequently. These represent much of the ongoing changes done annually. By the beginning of the next assessment cycle we will have added the rest of the city, state, and county agencies, and water districts to our possessory interest database for tracking.

RECOMMENDATION 24

Assess all taxable possessory interests.

Response:

We will consider expanding our low value ordinance to include a variety of qualifying possessory interests.

We have acquired a possessory interest internet program from Los Angeles County. It will provide all agencies with the ability to directly key their leasehold information into a database. They will also be able to develop reports from this database and query as to assessment numbers and values as well as review the data for any errors or omissions. We believe this tool will be most useful in helping us meet our goal of assessing all taxable possessory interests.

Obtaining documentation required to develop a comprehensive review of the gaming at Indian Casinos is an area that the Assessor would like the State Board to become proactive with us. We would like the State Board of Equalization to be a catalyst to provide the County of Riverside, as well as the other affected counties,

annual updates through confidential information from the California Gambling Control Commission.

The California Gambling Control Commission (Commission), under the Gambling Control Act, and pursuant to the Governor's Executive Order D-29-01, has jurisdiction over operation, concentration, and supervision of gambling establishments, and over all persons or things having to do with the operations of gambling establishments in the State of California. The focus of the Commission is to act as the regulatory body over gambling activities in the State, setting policy, establishing regulations, issuing licenses, serving as the adjudicator for license denials recommended by the Division of Gambling Control, and any other related items and issues that may come before the Commission. In addition, the Commission, pursuant to the Governor's Executive Order D-31-01, under the Tribal-State Gaming Compacts, is ordered to (1) administer the gaming device license draw process, (2) control, collect, and account for all license fees, and (3) ensure that the allocation of gaming devices among California Indian Tribes does not exceed the allowable number provided in the Compacts.

There are 119 cardrooms and 43 tribal casinos currently operating in the State of California. With a combined effort the State Board and the Commission could work to provide the counties the detailed information needed to be able to assess these complex properties. It would be most helpful if the Board would consider providing the counties with a documented plan on assessment practices for Indian gaming as well.

RECOMMENDATION 25

Correctly calculate the factored base year value for historical properties.

Response:

We concur. The valuation of Historical Properties was shifted under the Special Projects Division for 2002. This shift should help with valuation consistency (monitoring of market, factored base year, and restricted value, etc.), and increase the effectiveness of the overall process.

RECOMMENDATION 26

Implement consistent and correct procedures for the review of enforceably restricted historical property assessments.

Response:

We concur. With the centralization of Historical Properties under the Special Projects Division, assessment related functions should be enhanced. This will enable the creation of viable procedures that will provide an optimum framework for the review of Mills Act properties.

RECOMMENDATION 27

Collect and review relevant data for the assessment of water companies.

Response:

We concur. We will contact the Riverside County Department of Environmental Health and the California Public Utilities Commission to obtain relevant information to appraise the water company properties. We will request information from the water companies on an annual basis.

RECOMMENDATION 28

Reappraise regulated water companies.

Response:

We concur. The office will review the section on regulated water companies in Assessors' Handbook 542, obtain current data from the CPUC, send questionnaires to the companies, and appraise them correctly.

RECOMMENDATION 29

Develop written procedures for appraising water companies.

Response:

We concur. Following guidelines in Assessors' Handbook 542, this office will develop written procedures for appraising water companies as part of our overall effort to update our Operations Manual.

RECOMMENDATION 30

Adequately document mineral property files.

Response:

The assessor will update the Mining and Mineral files utilizing new data storage capabilities. The creation and use of a Mining and Minerals Database will allow the Assessor to discover, maintain and assess all of the mining and mineral assessments in the County of Riverside.

RECOMMENDATION 31

Adjust the value of mineral properties for changes in the amount of proved reserves.

Response:

The Assessor is in process of updating its Mine and Mineral assessment program. The ability to track proven reserves as well as new reserves will be a main function of the software program. In addition, the Assessor will contact the Planning Department and develop a closer working relationship with the County geologist to share and obtain information related to mining and mineral assessments within the County.

RECOMMENDATION 32

For mineral properties, ensure that the economic life of the property used in the appraisal matches the anticipated term of possession.

Response:

The Assessor's staff will review all reported leases and adjust the valuation to make sure the anticipated term matches the economic life of the subject property.

RECOMMENDATION 33

Enroll all escape assessments and overassessments discovered during an audit.

Response:

Non-enrollment of small audit value differences is typically based on appraisal judgment guidelines and cost efficiencies. In many cases, the cost to process small differences exceeds the expense required to collect the taxes. Post-audit notification letters and copies of associated work papers provide assessees with adequate information to protect their appeal rights.

This policy will be reviewed with respect to the recent legislative adoption of Revenue and Taxation Code section 531.9 (effective 1/1/2003).

RECOMMENDATION 34

Review residential income properties to discover assessable personal property.

Response:

We will review available residential income property information for discovery purposes.

RECOMMENDATION 35

Use AH 581 as intended when valuing older machinery and equipment.

Response:

We believe the CAA recommendations regarding the use of percent good factors are appropriate based on the following:

- (1) The minimum percent good factor (a factor equal to 125 percent of the estimated economic life) recommended by the CAA is consistent with logic expressed by the Board in AH 581 for developing the maximum recommended Equipment Index Factor. It is also supported by the appraisal experience of senior auditor appraisers in California Assessor's Offices, assessment appeal cases, and business property audit data.
- (2) Assessors' Handbook section 582 (p. 22) states: "*As survivors of an original group reach older age, there may be less reliability in percent good factors applicable to these items. When property items reach this latter stage of their life and the tables indicate very low or zero percent good factors for property that is still functioning, special consideration should be given in assigning percent good factors.*" The vast majority of business property is still in use when it is assessed.
- (3) The minimum percent good factors recommended by the CAA are also generally supported by industry equipment salvage values identified in the *Marshall Valuation Service* publication.

In any case, percent good factors should be adjusted accordingly when sufficient evidence is present to warrant such changes.

RECOMMENDATION 36

Classify manufactured homes as personal property.

Response:

Our process treats manufactured home properties that are not on a permanent foundation as if they are personal property. The assessment numbering sequence as well as the use codes employed identify manufactured homes in a way that prevents special assessments and taxes from being applied, while allowing billing in the same manner as other residential properties, as well as applications of other benefits as required.

RECOMMENDATION 37

Revise manufactured home assessment procedures by placing greater emphasis on recognized value guides.

Response:

We agree with this recommendation.

RECOMMENDATION 38

Enroll changes in ownership as of the date reported by the Department of Housing and Community Development.

Response:

We concur with this recommendation and have corrected our procedure. The majority of properties previously processed incorrectly were voluntary conversions to local property tax, and billable supplemental assessments are not allowed for those changes in tax status.

RECOMMENDATION 39

Assess share transfers in cooperatively-owned manufactured home parks as reassessable changes in ownership.

Response:

We concur and are currently in the process of creating a procedure to assess share transfers in cooperatively-owned manufactured home parks as reassessable changes in ownership. To date, four such parks and one RV park have been identified, and values are being studied for possible adjustment.

RECOMMENDATION 40

Value resident interests in manufactured home parks by allocating the residual sale price to the land and common structures.

Response:

We concur and are in the process of creating a procedure to value resident interests in manufactured home parks by allocating the residual sale price to the park. A portion of the residual value would be attributable to the park's land, and a portion to common area improvements (clubhouse and other improvements).

RECOMMENDATION 41

Grant the historical aircraft exemption only to individual owners of such aircraft.

Response:

We reviewed all of our Historical Aircraft Exemption claims and discovered several that were owned by corporations. These claimants have since filed and qualified for the Welfare Exemption. Staff has been made aware that only individual owners are eligible for the Historical Aircraft Exemption and will only grant the exemption to those claimants who meet the specific requirements.

RECOMMENDATION 42

Include vessel type, model, condition and additional equipment on the vessel appraisal record.

Response:

Beginning with the 2003 lien date, all newly identified vessel owners will be sent reporting forms that will provide the assessor with more detailed vessel information.

RECOMMENDATION 43

Apply depreciation percentages to vessels according to type.

Response:

We will continue to analyze vessel depreciation rates and, to the extent possible, value vessels according to type. Computer programming limitations currently limit the extent to which vessel mainframe database information can be segregated for separate treatment. Additional resources will be required to implement this recommendation.