

# SACRAMENTO COUNTY ASSESSMENT PRACTICES SURVEY

**JANUARY 2001**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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January 31, 2001

TO COUNTY ASSESSORS:

SACRAMENTO COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the Sacramento 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 Sacramento County assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, the county assessor's response, and the BOE's comments to the assessor's response constitute the final survey report. This report, pursuant to Government Code section 15646, is distributed to the Governor, the Attorney General, the State Legislature; and to the Sacramento County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's Policy, Planning, and Standards Division performed the fieldwork for this survey of the Sacramento County Assessor's Office during February 1999 through August 1999. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires interruption of normal office work routines. We thank the Honorable Kenneth Stieger, Sacramento County Assessor, and his staff for their cooperation and patience during this assessment practices survey. These survey reports give the 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 your questions, comments, and/or suggestions for improvement with us.

Sincerely,

Richard C. Johnson  
 Deputy Director  
 Property Taxes Department

RCJ: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 enormous 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) every county assessor's office. This report reflects the BOE's findings in its current survey of the Sacramento 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 increased the number of recommendations in the survey reports. Accordingly, an increase in the number of recommendations from one report to the next should not lead the reader to conclude that the effectiveness of the assessor's operation has decreased.

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 State Board of Equalization, the Senate and Assembly, the Sacramento County Grand Jury, and the Sacramento County Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Kenneth D. Stieger, Sacramento County Assessor, elected to file his initial response prior 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.

## 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 performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, section 75.60 of the Revenue and Taxation Code<sup>1</sup> requires the BOE to certify that the county assessment roll meets a minimum assessment level. 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 Sacramento County Assessor's Office included reviews of office records, interviews with the assessor's staff, and contact with other Sacramento County public agencies to obtain information relevant to property tax assessment.

Sacramento County is one of the state's ten largest counties. As such, the Sacramento County Assessment Practices Survey also included a sampling of assessments from the 1998-99 Sacramento County assessment roll. This assessment sample determined 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 amount 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.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls, nor the internal management of an assessor's office outside those areas related to assessment.

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<sup>1</sup> All statutory references are to the Revenue and Taxation Code, unless otherwise indicated.

## EXECUTIVE SUMMARY

In our prior survey, we made eight recommendations. Of those recommendations, the assessor implemented three of the changes we recommended, implemented one in part, and did not implement four. In this report we repeat most of the recommendations that the assessor did not implement or implemented only in part.

- The assessor's staff appraisers have the required BOE appraiser certificates and, with few exceptions, are current in their annual training requirements.
- As required by the county's contract with the State Department of Finance, the assessor met the *State-County Property Tax Administration Program* performance measures for 1998.
- Investigation of the assessor's appeals workload, the level of coordination between the appeals board and the assessor's office, and the quality of appeals analyses and case presentations indicates an effective assessment appeals program.
- When the assessor's staff forwards welfare exemption claims to the BOE, it fails to meet the April 1 statutory deadline. In some cases, claims have been received 12 to 24 months late.
- With regard to declines in value, we discovered several cases where the assessor had administratively corrected an assessment more than one year after enrolling the original assessment. Section 4831 does not permit correcting the assessment roll in that manner.
- For disaster relief, we recommend that the assessor revise *the Notice of Application for Reassessment Due to Calamity* to reflect the application period established by statute.
- With one exception, the assessor has an effective program for discovering, appraising, and enrolling changes in ownership of real property. The exception concerns the proper application of penalties upon a property owner's failure to return a change in ownership statement. In addition, public information concerning the section 69.5 exclusion should conform to current law.
- The assessor has an effective program for discovering, appraising, and enrolling the assessment of new construction. Our only recommendation concerns the recording of discarded building permits on parcel records.
- We made one recommendation concerning the assessor's change in ownership procedures in the assessment of taxable possessory interests.
- Several problems were discovered in the assessor's discovery, valuation, classification, and supplemental assessment of properties under California Land Conservation Act (CLCA) contracts.
- The assessor should conform to relevant case law by considering the factored base year value for taxable government-owned property.
- The assessor does not maintain sufficient information concerning the mutual water companies operating in Sacramento County; we recommend that specified information relevant to mutual water companies be documented.

- We recommend that when determining whether an organization is subject to a mandatory audit, the assessor include the value of exempt personal property.
- Although not required, conducting nonmandatory audits is necessary to achieve a representative sampling of all sizes and types of property. We recommend that the assessor develop a nonmandatory audit program.
- While the assessor’s office has developed a comprehensive audit checklist, checklists were not included in the working papers of the audits we reviewed. We recommend that the audit staff use the existing audit checklist, as directed in its operations manual.
- We recommend that the *Notice of Proposed Escape Assessment* conform to the appropriate statutory requirements.
- For the appraisal of business personal property and equipment, the business property staff continues to use incorrect price index factors.
- We recommend implementing a cross-reference procedure to ensure that leased equipment is assessed upon expiration of a lease.
- In the assessment of vessels, we make two recommendations regarding the assessor’s use of forms.
- With regard to the assessment of manufactured housing, the assessor does a good job of using the BOE-approved cost guides to estimate the value of a manufactured home. However, we recommend that the assessor develop written procedures, implement annual decline-in-value reviews, and review classification procedures for manufactured homes.

Despite the problems noted above, we found that most properties are being assessed correctly.

The county assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 1998 assessment roll indicated an average assessment ratio of 99.08 percent, and the sum of absolute differences was 2.63 percent. Accordingly, the BOE certifies that Sacramento County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Forward welfare exemption claims to the BOE in a timely manner..... 13

**RECOMMENDATION 2:** Correct assessment errors arising solely from real property declines in value within one year after enrolling the original assessments..... 14

**RECOMMENDATION 3:** Change the *Notice of Application for Reassessment Due to Calamity* to reflect the statutory time period for submitting an application for disaster relief..... 14

**RECOMMENDATION 4:** Timely apply the penalty for a failure to file a change in ownership statement as prescribed in section 482(a). ..... 16

**RECOMMENDATION 5:** Ensure that public information documents containing section 69.5 exclusion information conform to current statutory provisions. . 18

**RECOMMENDATION 6:** Enter all building permit information on the building record for each parcel. .... 19

**RECOMMENDATION 7:** Comply with section 61(b)(2) to determine whether a renewal of a possessory interest is a change in ownership. .... 20

**RECOMMENDATION 8:** Improve discovery of taxable trees, vines, and non-living improvements..... 21

**RECOMMENDATION 9:** Calculate and enroll the current estimate of value of property subject to the California Land Conservation Act (CLCA) as required by section 423. .... 22

**RECOMMENDATION 10:** Use market-derived expense rates when estimating the value of CLCA property. .... 22

**RECOMMENDATION 11:** Follow regulatory guidelines when classifying and assessing water wells on property subject to CLCA contract. .... 23

**RECOMMENDATION 12:** For Section 11 properties, enroll the lowest of: (1) the Section 11 value, (2) factored base year land value, and (3) current market value. .... 23

**RECOMMENDATION 13:** Obtain specified information relative to each mutual water company in the county. .... 25

**RECOMMENDATION 14:** Include the value of personal property exempt under the welfare exemption when determining whether an account is subject to a mandatory audit. .... 26

**RECOMMENDATION 15:** Develop a formal nonmandatory audit program. .... 27

**RECOMMENDATION 16:** Require the use of an audit checklist in every audit. .... 27

**RECOMMENDATION 17:** Adhere to statutory format requirements for the *Notice of Proposed Escape Assessment*. .... 28

**RECOMMENDATION 18:** Use the appropriate price index and percent good factors from the AH 581 for the category of equipment being appraised. .... 29

**RECOMMENDATION 19:** Cross-reference the lessor and lessee files to ensure the continued assessment of leased equipment upon expiration of a lease..... 30

**RECOMMENDATION 20:** Require owners of vessels costing \$100,000 or more to file an annual BOE-prescribed vessel property statement..... 30

**RECOMMENDATION 21:** Remove the section 463 penalty language from the *Vessel Owners' Report* form. .... 31

**RECOMMENDATION 22:** Annually review manufactured home assessments for declines in value. .... 32

**RECOMMENDATION 23:** Develop written policies and procedures for the assessment of manufactured homes. .... 32

**RECOMMENDATION 24:** Classify and enroll manufactured homes as personal property. ... 32

## RESULTS OF 1994 SURVEY

### ***Disaster Relief***

We found that the assessor was using supplemental assessments to enroll disaster relief and had improperly prorated the assessed values of damaged properties. We recommended that the assessor cease using supplemental assessments to enroll disaster relief and that he revise his enrollment procedures. The assessor is now in compliance with both parts of our recommendation. With regard to supplemental assessment procedures, section 170 was amended and permits the assessor to use supplemental assessment procedures when processing disaster relief claims.

### ***Taxable Possessory Interests***

We made a two-part recommendation addressing the assessment of taxable possessory interests. In part one of this recommendation, we criticized the assessor for not performing a change in ownership reappraisal of a taxable possessory interest when a lease renewal option was exercised during the reasonably anticipated term of possession. The assessor implemented this recommendation. Subsequently, an amendment to subdivision (b) of section 61, effective January 1, 1997, prescribed the assessor's prior practice. The assessor now follows current law.

Complying with part two of the recommendation, the assessor did review his procedures relating to taxable possessory interest capitalization rates for agricultural properties. However, this survey report contains a related recommendation concerning taxable possessory interest capitalization rates.

### ***California Land Conservation Act Properties***

We recommended that the assessor cease enrolling supplemental assessments for lands subject to California Land Conservation Act (CLCA) contracts. Since the assessor continues this practice, we repeat our prior recommendation.

### ***Mandatory Audits***

We criticized the assessor for failing to perform mandatory audits of large apartment properties and exempt properties, even though such properties met the requirements for mandatory audit. The assessor's staff now schedules mandatory audits for apartment properties, but not for exempt properties.

### ***Penalty Assessments***

Assessors may apply late-filing penalties only when using BOE-prescribed forms. We criticized the assessor's use of his own *Vessel Owner's Report* (VOR). This is not a BOE-prescribed form, but it includes a statement describing a late filing penalty. Although the assessor no longer

assesses a penalty based on a late-filed VOR, he continues to use the form with the penalty annotation. Consequently, we repeat the recommendation.

### ***Valuation of Business Personal Property***

We recommended that the assessor use the appropriate equipment index factors when valuing business machinery and equipment. However, the assessor's staff continues to average the commercial equipment index factors from Assessors' Handbook Section 581 (AH 581), developing one factor for all classes of commercial equipment.

Using an average of the various equipment indices sacrifices accuracy for convenience. This practice can lead to inaccurate valuations of certain classes of commercial equipment and inequitable treatment of taxpayers. We repeat this recommendation.

We criticized the practice of combining leased property assessments rather than making separate assessments according to situs of each property. Section 623 now permits this practice.<sup>2</sup> The assessor is now in compliance with the statute.

Section 405 provides that "[t]he assessor shall assess all the taxable property in his county, except state-assessed property, to the persons owning, claiming, possessing, or controlling it on the lien date." We recommended that the assessor ensure that the full name of the assessee appears on the roll. In our current survey, we found numerous instances in which property was not assessed to the person owning, claiming, possessing, or controlling it on the lien date. We again recommend that the assessor review the owner's name on each property statement and confirm that the assessment roll contains the same ownership information.

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<sup>2</sup> Statutes of 1995, Chapter 527, added section 623, effective January 1, 1996.

## OVERVIEW OF SACRAMENTO COUNTY

### ***Sacramento County's Economic Region***

Sacramento County is the central and largest county within the four-county Sacramento economic region defined to include El Dorado, Placer, Sacramento, and Yolo Counties.<sup>3</sup> This region, measured by population, is the fifth largest in the state and accounts for approximately 5.1 percent of California's population.<sup>4</sup> By several demographic and economic measures, the region grew faster than the state as a whole during the 1990's; that trend is expected to continue over the next decade.

The economic base of the Sacramento region is increasingly diversified. Although still dominated by state government and education (which together account for about one-third of basic employment), the region's economic base also includes diversified manufacturing, high-tech, distribution, and agriculture. The region is also a trading center for several smaller, bordering counties. Sacramento's economic base grew steadily during the 1990's, even during the recession in the early part of the decade, with a significant migration of jobs and people from California's higher cost regions.

### ***Budget, Staffing, and Workload***

#### **Budget and Staffing**

In fiscal year 1997-98, the Sacramento County Assessor's budget was the 7th largest among the state's 58 counties, fluctuating little over the period covered by this report.<sup>5</sup> It is generally comparable with the assessors' budgets in counties of similar sizes and workloads.

Since the program's inception in 1995, Sacramento County has participated in the State-County Property Tax Administration Loan program (PTAP). This program, discussed later, augments the assessor's budget with state-provided loan funds.

At the time of our survey, the assessor's office had a total staff of 166 employees. With the availability of PTAP funds, staffing has increased in recent years. The Sacramento County Assessor's Office ranks eighth in the State in terms of staff size as of 1997-98.<sup>6</sup>

<sup>3</sup> Some analyses also include Yuba and Sutter Counties in the Sacramento region.

<sup>4</sup> The defined economic regions follow those presented in Center for Continuing Study of the California Economy, "California County Projections, 1999 Edition," Center for Continuing Study of the California Economy: Palo Alto, California.

<sup>5</sup> Gross budgets, excluding PTAP funds, (in millions) \$: 1. Los Angeles, \$79.02; 2. Orange, \$18.79; 3. Santa Clara, \$15.36; 4. San Diego, \$14.88; 5. Alameda, \$11.68; 6. Riverside, \$9.75; 7. Sacramento, \$9.52; 8. San Bernardino, \$8.10; 9. Contra Costa, 10. \$8.01; Fresno, \$7.08; 11. Kern, \$6.74; and 12. San Mateo, \$6.54.

Unless otherwise noted, all budget and workload data is from the following: State Board of Equalization, Property Taxes Department, "A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices," annual, various years.

<sup>6</sup> Budgeted permanent positions, 1997-98, excluding PTAP-funded positions: 1. Los Angeles, 1,381; 2. Orange, 303; 3. San Diego, 277; 4. Santa Clara, 245; 5. Riverside, 178; 6. Alameda, 170; 7. San Bernardino, 159; 8. Sacramento, 138; 9. Contra Costa, 128; 9. Fresno, 128; 10. San Francisco, 107; 11. Ventura, 106.

**Workload**

At \$57.2 billion, the Sacramento County assessment roll was the 11th largest in the state for 1998-99. That ranking roughly correlates with its rankings in budget size and number of staff discussed above.<sup>7</sup> The following table shows how the size of the Sacramento County assessment roll has grown over the period covered by this survey.

**Table 2: Assessed Value of County-Assessed Property on the Regular Assessment Roll (Secured and Unsecured), Sacramento County**

<b>Year</b>	<b>(\$Thousands)</b>	<b>% Change Prior Year</b>	<b>% Change State</b>
1993/94	51,990,099	2.7	3.3
1994/95	53,277,885	2.5	1.3
1995/96	53,986,209	1.3	0.9
1996/97	54,277,137	0.5	1.4
1997/98	54,923,758	1.2	3.0
1998/99	57,225,548	4.2	4.9

(Source: Sacramento County Assessor's Office)

<sup>7</sup> County- and state-assessed property, 1998-99 roll, in billions: 1. Los Angeles (\$542.4), 2. Orange (\$196.0), 3. San Diego (\$170.0), 4. Santa Clara (\$153.0), 5. Alameda (\$96.7), 6. San Bernardino (\$79.9), 7. Riverside (\$78.1), 8. Contra Costa (\$75.3), 9. San Mateo (\$69.8) 10. San Francisco (\$67.2), 11. Sacramento (\$59.0). Sacramento's ranking does not change if only county-assessed property is considered. (State Board of Equalization, 1997-98 Annual Report, A-10.)

## ADMINISTRATION

This portion of the report focuses on the aspects of an assessor's office that affect its general operation.

### ***Training***

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours of annual training if an appraiser holds an advanced certificate.

All individuals performing the duties of an appraiser hold the required certificate. We found no significant deficiencies relating to annual training requirements.

### ***State-County Property Tax Administration Program***

Section 95.31 established the State-County Property Tax Administration Program (PTAP); this program provides state-funded loans to eligible counties for the improvement of property tax administration.

If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies performance criteria stipulated in the contract. As a provision of the contract, a 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 office's existing funding.

Presently, the BOE only ensures that the county's contractual performance criteria are as specified in section 95.31. The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment. In most counties, as a provision of the contract, verification of performance is provided to the State Department of Finance by the county auditor-controller, or the county's equivalent financial officer. Additionally, we review the county audit.

Sacramento County participated in the PTAP during calendar years 1996, 1997, 1998, and 1999. Each year the county borrowed its maximum loan amount of \$1,554,245.

Sacramento County has used PTAP funds to reduce backlogs of change-in-ownership assessments, new construction assessments, mandatory audits, and assessment appeals, primarily through increased staffing. Funds have also been used to purchase new information technology hardware, software, and related staff training, all designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax administration system. About one-half of PTAP funds has been spent on increased staffing and one-half on information technology.

The county's Director of Finance has certified to the State Department of Finance that the county met the contractual requirements for loan repayment in 1996, 1997, and 1998.

## Assessment Appeals

Section 16 of article XIII of the California Constitution provides for local boards of equalization to equalize assessments on the local assessment roll. Either a county board of supervisors, or one or more assessment appeals boards created by a county board of supervisors, performs the duties of a local board of equalization. Administrative and budgetary responsibility for the county assessment appeals boards rests with county government, typically carried out by a county's office of the clerk of the board of supervisors, or its equivalent.

We reviewed the assessor's appeals workload, the level of coordination between the appeals board and the assessor's office, and the quality of appeals analysis and case presentation made by the assessor's staff.

### Appeals Workload

As real estate values declined, the number of assessment appeals in Sacramento County increased significantly during the early- and mid-1990's. With the recovery of the California real estate market, the number of assessment appeals has declined. These trends are illustrated below.

Table 6: Sacramento Assessment Appeals Workload: 1993-94 to 1998-99

Fiscal Year	Beginning Backlog	Appeals Filed	Appeals Resolved	Ending Backlog
1993-94	1,143	4,633	2,621	3,155
1994-95	2,794	7,464	2,566	7,692
1995-96	4,344	7,707	4,835	7,216 (6,552)*
1996-97	6,552	6,676	11,537	1,169
1997-98	6,176	4,008	7,973	2,211
1998-99	2,243	1,956	3,062	1,137

(Source: BOE "Annual Report on Budgets and Workload") \* Reporting anomaly

Prior to the increase, assessment appeals represented a relatively small portion of the assessor's workload. In 1991-92, for example, assessment appeals consumed only about 5 percent of the available work hours of real property appraisers. By 1997-98, however, that figure had risen to about 33 percent, or one-third of the available hours.

To cope with the increase in workload, the assessor created dedicated crews to handle both residential and commercial appeals. By 1998-99, the appeals workload had declined to about 20 percent of available hours, and this decline should continue as the appeals backlog and the number of new filings continues to decline.

### Coordination

Due to the number of appeals filed, the appeals function requires close coordination between the appeals boards and the assessor's office. The two agencies must have a satisfactory working relationship in order to make the appeals process efficient. A cooperative relationship is particularly necessary in regard to scheduling hearings, processing value changes, ensuring that the applicants and assessor receive proper notice, and maintenance of appeals-related data. At the same time, the statutory separation of the

authority and responsibility of both agencies must be maintained. We observed no problems with the coordination of assessment appeals.

### **Assessor's Presentation**

Professional, and hence credible, appeals preparation by the assessor's appraisal staff is necessary to protect the property tax base. Proper presentation of an assessment appeal requires, essentially, the proper application of the approaches to value, adequate market data, and adequate file documentation. Based on our review of appeals records, we found good appraisal analysis and record documentation. Case presentation before the appeals board was also good. We observed no problems with appeals presentation and offer no recommendations in this regard.

### **Property Tax Exemptions**

California law provides for a number of exemptions from the property tax. These exemptions can be grouped into two general categories--exemptions granted to individuals and exemptions granted to institutions. Significant property tax exemptions relating to individuals include the homeowners', veterans', and disabled veterans' exemptions. Important institutional exemptions include the welfare, church, and religious exemptions.

**RECOMMENDATION 1:** Forward welfare exemption claims to the BOE in a timely manner.

The welfare exemption allows full or partial property tax exemption of qualifying property owned and operated by qualifying nonprofit organizations, used exclusively for religious, hospital, scientific, or charitable purposes and activities. It is unique among exemptions in that it is the only exemption co-administered by county assessors and the BOE.

Under section 254.5(a), to be eligible for the full exemption, a welfare exemption claim form must be filed with the assessor on or before February 15 of each year.<sup>8</sup> Section 254.5(a) also requires the assessor to forward copies of all claim forms and related documents to the BOE no later than April 1 of each year, so that the BOE can make its own review. Thus, the assessor has about two months to field review and process its claims before forwarding them to the BOE.

The assessor failed to meet the statutory deadline for forwarding welfare exemption claims to the BOE. In some cases, the BOE received claims 12 to 24 months late.

We recommend the assessor comply with the statutory deadline and timely forward all welfare exemption claims to the BOE. This includes incomplete claims. Those incomplete claims should include the assessor's recommendation for denial. This would complete the assessor's processing and would prompt the BOE to send a finding sheet to the claimant noting the claim's defects.

### **Assessment Roll Corrections**

Section 4831 allows the assessor to correct, within one year of the making of the assessment that is being corrected, an error or omission involving a value judgment that arises solely from a failure to recognize a

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<sup>8</sup> Prior to the 1999 assessment year, this deadline was March 15.

decline in value of real property. For example, for a 1997 roll value, a correction involving a failure to recognize a decline in value must be made before July 1998 (that is, within one year of the completion of 1997 roll).

**RECOMMENDATION 2:** Correct assessment errors arising solely from real property declines in value within one year after enrolling the original assessments.

Our sampling of Sacramento County's 1998 assessment roll included properties that were under appeal during the 1993-98 sample period, as the result of declines in value. In several cases, the assessor used the provisions of section 4831 to administratively correct the appealed assessment, under the condition that the applicant withdraw his or her assessment appeal, sometimes more than one year after the assessor enrolled the initial assessment.

Section 4831 only allows the assessor to make value corrections for decline-in-value assessments within one year of the making of the assessment being corrected. Additionally, requiring the applicant to withdraw the appeal as a condition of the correction is inappropriate. Correction of these assessments under the provisions of section 4831 is independent of the appeal process.

We recommend that the assessor adhere to the one-year limitation in section 4831 when correcting assessments that involve a failure to recognize a decline in value.

### ***Disaster Relief***

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, or to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to both. The Sacramento County Board of Supervisors enacted such an ordinance in 1985.

Taxpayers filed about 240 calamity claims in Sacramento County during the 1997-98 fiscal year. A majority of those claims resulted from the 1997 floods.

**RECOMMENDATION 3:** Change the *Notice of Application for Reassessment Due to Calamity* to reflect the statutory time period for submitting an application for disaster relief.

As prescribed in section 170, a property owner must file an application for tax relief as follows:

The property owner must file a written application for reassessment due to calamity with the assessor within the time period specified in the county's ordinance, or if no time is so specified, within 60 days of the misfortune or calamity.

Alternatively, if the property owner makes no application—and the assessor determines that a property has suffered damage caused by misfortune or calamity—the assessor must provide the last known owner of the property with an application. The property owner must file that application within 30 days of the assessor's notification, but no later than six months after the misfortune or calamity occurred.

When the assessor becomes aware of potential disaster relief, he forwards a *Notice of Application for Reassessment Due to a Calamity* to the property owner. The notice informs the property owner that the application must be postmarked or returned within six months of the date of the damage or by the “return by” date at the top of the form. This is not correct.

Although both the county’s ordinance and the assessor’s written procedures state the correct time limits for filing a proper application, the assessor’s notice to taxpayers conflicts with section 170. The statute provides that the application must be returned no later than six months after the damage. In some cases, the “return by” date is later than six months after the damage.

We recommend that the assessor revise this notice so that it is consistent with the statutory time limits.

## ASSESSMENT OF REAL PROPERTY

### ***Change in Ownership***

Section 50 requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. In Sacramento County, the assessor's staff reviews each recorded deed to determine whether a change in ownership has occurred requiring the establishment of new base year values.

After a change in ownership, the property interest transferred is reassessed at its current market value as of the date of transfer, establishing a new base year value. A significant part of the annual workload in assessors' offices involves the establishment of new base year values of properties that change ownership.

### **Change in Ownership Statement**

**RECOMMENDATION 4:** Timely apply the penalty for a failure to file a change in ownership statement as prescribed in section 482(a).

Subdivision (a) of section 482 provides for a penalty for failure to file a change in ownership statement (COS) within 45 days following a written request by the assessor. The assessor does apply a penalty when an owner fails to file a COS, but it is not applied timely.

The assessor mails a COS to a property owner if that owner does not file a Preliminary Change of Ownership Report (PCOR) with a recorded document. If the owner does not return the first COS within 32 days, the assessor will mail a second notice. Should the owner fail to return that COS within 60 days, the assessor mails a third notice. Only after the property owner fails to return the third COS will the assessor apply the penalty, which is more than the 45 days prescribed by statute.

We recommend the penalty assessment for failure to file a COS be assessed in accordance with section 482(a).

### **Transfer Document Processing**

During the 1997-98 fiscal year, the assessor's staff processed approximately 24,818 changes in ownership (i.e., a property transfer requiring the establishment of a new base year value). This represented approximately 60 percent of the total number of recorded documents reviewed. The property transfer staff reviews all recorded documents and determines whether changes in ownership have occurred.

We reviewed a sample of properties from the public transfer list to evaluate the assessor's procedures for documentation, change in ownership determination, processing of partial interest transfers, change in ownership exclusions, and the issuance of supplemental assessments. Overall, we found that the property transfer staff competently processes recorded changes in ownership.

**Public Transfer List**

Section 408.1 requires an assessor of a county with a population greater than 50,000 people to maintain a list, available for public inspection, of transfers within the county. The list must contain all transfers that have occurred within the preceding two years. The Sacramento County Assessor's Office maintains the required public transfer list on microfiche. The list is provided in parcel number order and conforms to statute.

**Direct Enrollment Program**

Since 1987, the assessor has processed a significant portion of residential property transfers by direct enrollment. Direct enrollment allows the assessor to enroll properties meeting certain criteria with minimal appraiser involvement. The assessor's direct enrollment program consists of 22 distinct "clusters" of single-family residential properties comprising about 264,500 parcels. Direct enrollment is essentially limited to single-family residential and condominium properties.

Over the last five years, the percentage of change in ownership reassessments processed using direct enrollment has increased significantly; consequently, the assessor has been able to better manage his change in ownership workload.

**Legal Entity Ownership Program**

Section 64(c) provides that a change in control of any legal entity results in the change in ownership of all real property owned by that legal entity, as of the date of change in control. Discovery of real property transferred by a change in control of a legal entity can be difficult because ordinarily there are no recorded deeds. While such notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records.

The BOE's Legal Entity Ownership Program (LEOP) staff discovers unrecorded changes in ownership using corporate and partnership tax returns filed with the State Franchise Tax Board. Through the LEOP, the BOE passes information related to those transfers to county assessors' offices. From March 1, 1994 through January 1, 1998, the LEOP unit notified the assessor of 34 changes in control involving 104 parcels.

We found that the assessor had reappraised all of the real property owned by those legal entities reporting a change in control. The assessor's processing of these changes in ownership is well organized.

**Section 69.5 Exclusion**

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner was at least 55 years of age, the owner filed a timely claim, and the properties were within the same county. For the 1997-98 fiscal year, the assessor's staff processed approximately 110 section 69.5 claims.

**RECOMMENDATION 5:** Ensure that public information documents containing section 69.5 exclusion information conform to current statutory provisions.

Public information documents provided by the assessor concerning the section 69.5 exclusion contain some erroneous information. We found that the response to Question 10 in the Proposition 60 Pamphlet is inconsistent with subdivisions (g)(3), (g)(4), and (g)(9) of section 69.5.

Section 69.5 provides that the assessor must determine whether a person applying for the transfer of a base year value has previously received that benefit. Question 10 of the assessor's pamphlet provides that any co-owner of record of a replacement dwelling that has received the section 69.5 benefit will no longer be eligible to use the section 69.5 exclusion. However, in BOE Letter To Assessors No. 91/80, we opine that there is a difference between a claimant and a nonclaimant record owner. We basically define a claimant as the person making the claim and a nonclaimant as an owner of record who is not filing the claim and, therefore, is still eligible to file a section 69.5 claim.

We recommend the assessor review and update the information made available to the public. Specifically, the assessor should review the answer provided to Question 10.

### **Section 63.1 Exclusion**

Section 63.1 excludes from the definition of change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first one million dollars of other real property between parents and children when a claim is filed timely. Subsequent amendments to section 63.1 also exclude certain transfers from grandparents to their grandchildren.

Information regarding the provisions of section 63.1 is available at the public counter and on the assessor's website. Property owners in Sacramento County file approximately 1,200 section 63.1 claims annually. Besides processing all of those claims, the transfer staff also prepares the quarterly section 63.1 reports as required by the BOE.

We found no problems with this program. The operations manual is thorough and the procedures for processing applications comply with section 63.1.

### **New Construction**

Section 71 requires the assessor to establish a new base year value for newly constructed real property upon the date of completion, or a full cash value for the unfinished new construction on each lien date. Assessors discover most new construction activity from building permits. Other discovery methods include business property statements, aerial photographs, news reports, and field inspections.

### **Discovery**

During the 1997-98 fiscal year, the assessor received about 29,000 copies of building permits from five incorporated cities, the county building department, the State Department of Health, and the State Department of Housing and Community Development. Of these, 20,000 permits were discarded as non-reappraisable construction (i.e., construction activity that did not fall under the statutory definition of

“new construction”). The assessor’s staff reviewed the remaining 9,000 permits, which resulted in 3,600 reassessments.

**RECOMMENDATION 6:** Enter all building permit information on the building record for each parcel.

In the 1997-98 fiscal year, the assessor’s staff discarded 69 percent of all building permits it received. Further, the assessor’s computer system has the capacity to store only the five most recent permits for each parcel; the excess data are deleted. The high percentage of discarded permits, combined with the five-permit limitation of the system, provides incomplete information for the appraiser and can result in potential escaped new construction.

We recommend that the assessor’s staff record all permit information on the building record. This will help the appraisal staff determine whether there is assessable new construction when multiple permits are obtained for a single project.

### **Self-Reporting Program**

The assessor uses a self-reporting program to establish a new base year value for low-value new construction without field review. Self-reporting questionnaires are mailed to every property owner issued a low-value building permit, except permits for entirely new structures. In most cases, the property owner completes the questionnaire and the assessor establishes a new base year value for the new construction, based on information provided by the taxpayer.

In the 1997-98 fiscal year, the assessor mailed about 2,700 self-reporting questionnaires. An estimated 2,175 were returned. Based on the information provided, the assessor established a new base year value for the new construction. If the new construction was not eligible for the self-reporting program because of the value, or an owner fails to return a questionnaire, field review is required. The program appears to operate effectively. We have no recommendations regarding the assessor’s valuation of new construction.

### **Construction-In-Progress**

Section 71 provides that new construction 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.

The assessor’s new construction procedures and computer database both facilitate the implementation of section 71. The assessor’s operations manual describes the procedures for enrolling construction in progress on the lien date. Permit tracking programs report new construction in progress on each lien date until the construction is completed. We make no recommendations regarding the assessor’s valuation of new construction in progress.

### ***Decline in Value***

When preparing the assessment roll, section 51 requires the assessor to enroll the lesser of a property’s factored base year value (FBYV) or its current market value as defined in section 110. When a property’s current market value falls below its FBYV on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property’s market value rises above the FBYV, then the assessor must re-enroll the FBYV.

During the 1993-98 sample period, property values declined in Sacramento County, following a general statewide pattern. The assessor has devoted significant resources to identifying decline-in-value properties. With regard to single-family residences, the assessor has taken a proactive approach. For other property types, the assessor has reviewed individual assessments only at the request of the property owners.

For the 1998 lien date, the assessor's staff reviewed 101,343 residential parcels for declines in value. The assessor increased assessments on 50,241 parcels and restored factored base year values for 10,148 parcels. In addition, the assessor's staff reviewed 1,555 commercial parcels, 541 residential income parcels, and 1,462 vacant parcels for declines in value. Of these, 26 assessments were restored to the factored base year value and 737 assessments were increased.

The assessor's office has performed the decline in value annual review process especially well. In addition, when the assessor increased assessments for lien date 1998, property owners were notified, given an opportunity to informally discuss the new assessment with the assessor's staff, and informed of their assessment appeal rights.

### ***Valuation of Other Real Property***

#### **Taxable Possessory Interests**

A taxable possessory interest (PI) is a private property interest in publicly owned real property. For property tax purposes, the term "possessory interest" includes either the possession or the right to possession of real property when a tax-exempt government agency holds the fee title to that property.

Sacramento County has a significant number and a variety of taxable possessory interests. For 1998, the county assessed about 2,100 taxable possessory interests with a total assessed value of about \$460 million.

#### **Change in Ownership**

**RECOMMENDATION 7:** Comply with section 61(b)(2) to determine whether a renewal of a possessory interest is a change in ownership.

Sacramento County has a large number of taxable possessory interests on month-to-month tenancies. These interests are reappraised annually for change in ownership, typically using a reasonably anticipated term of possession of three to five years.

Under current law, however, such interests should not be reappraised annually. Section 61(b)(2) was amended recently to provide that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest by the assessor does not result in a change in ownership until the end of that reasonably anticipated term of possession. Thus, for example, if a taxable possessory interest is originally valued using a reasonably anticipated term of possession of five years, that interest, even though renewed monthly under a month-to-month tenancy, should not be reappraised until the expiration of the five-year term used to value the interest, assuming there is no change in tenants.

We recommend that the assessor reappraise only those renewals that are changes in ownership according to subdivision (b)(2) of section 61.

### **California Land Conservation Act**

Land in an agricultural preserve maybe subject to a contract between a landowner and a county pursuant to the California Land Conservation Act of 1965 (CLCA). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting, communication facilities), and are assessed at the lowest of this restricted value, the current market value, or the factored base year value, as defined in article XIII A of the California Constitution. Sections 422 through 430.5 deal explicitly with the valuation of lands subject to agricultural preserve contracts.

For fiscal year 1998-99, there were about 200,000 acres in Sacramento County restricted by CLCA contracts. This represents a decline of approximately 35,000 acres since our 1994 survey and is primarily the result of expired CLCA contracts. At the time of our survey, the valuation of CLCA property was the responsibility of one appraiser, and the amount of time this appraiser could devote to CLCA property was limited because of other duties.

### **Discovery**

**RECOMMENDATION 8:** Improve discovery of taxable trees, vines, and non-living improvements.

Approximately 8,200 acres of vineyards were assessed on the 1998 roll, about one-half of that was on CLCA land. However, in the Sacramento County 1998 Crop Report, the county reported approximately 13,400 acres of vineyard were harvested in Sacramento County. Assuming that the harvested acres represent mature, taxable vines, this is an escape of over one-third of the taxable vineyards in the county (i.e., both CLCA and non-CLCA vineyard property)—roughly 5,200 acres of mature vines and associated non-living vineyard improvements.

The Sacramento County Agricultural Department reported that the total vineyard acreage planted in Sacramento County is approximately 26,000 acres. Over the next five years about 13,000 newly planted acres will become taxable, beginning with the 1999 harvest. Reasonably, a significant amount of that newly planted acreage is under CLCA contract.

However, at the time of the survey, the assessor's CLCA tracking system showed only 22.17 acres of vines scheduled to become taxable in 1999 (planted in 1995) and 16.60 acres in 2000 (planted in 1996), for a total of about 40 acres. Those amounts represent a potentially substantial escape of non-living improvements and a potentially much larger escape of newly taxable living improvements for the 1999 roll and future years. The 13,000 acres of new vines and related non-living improvements are in addition to the 5,200 acres of escaped mature vines and vineyard improvements mentioned above.

We recommend that the assessor improve discovery of taxable trees, vines, and related improvements. Although this section of our report primarily addresses CLCA properties, our recommendation applies to non-CLCA agricultural property as well. Suggestions for improving discovery are to:

- Conduct regular field reviews.

- Obtain aerial photographs of Sacramento County.
- Require property owners to file an agricultural property statement.
- Facilitate coordination between the personal property and real property divisions to capture reported tree and vine plantings, or removals, and to track that information during the exemption period.
- Use an annual or biannual questionnaire to obtain current market data about CLCA properties.
- Send a cost letter specific to agricultural property—with entries for new plantings, trellises, drip irrigation, etc.—when pump or electrical permits are issued.
- Follow up all changes in ownership of agricultural properties with a field inspection, mailing of a cost letter, or both.
- Use a computer spreadsheet or database program for inventorying trees, vines, and related nonliving improvements, and for tracking during the exemption period.
- Develop written procedures for CLCA assessments for uniformity in assessment and for continuity during personnel changes.

## Valuation

**RECOMMENDATION 9:** Calculate and enroll the current estimate of value of property subject to the California Land Conservation Act (CLCA) as required by section 423.

For the 1998 and 1999 roll, the assessor did not calculate a section 423 value for CLCA properties. Instead he indexed the prior roll value with the annual inflation factor described in subdivision (a) of section 51.

We recommend that the assessor calculate and enroll a section 423 value for CLCA properties.

**RECOMMENDATION 10:** Use market-derived expense rates when estimating the value of CLCA property.

We found that the assessor uses a 90 percent expense ratio in the income approach for all CLCA tree and vine properties. However, our review of the income and expense questionnaires returned by property owners to the assessor shows expense ratios ranging from 60 to 70 percent of gross income. Using an inappropriately higher expense ratio will result in an understatement of net income, which will result in a lower estimate of value. Subdivision (a)(3) of section 423 provides that expenses must be those that are ordinary and necessary in the production and maintenance of revenue for the period.

We recommend that the assessor use market-derived expense rates appropriate for the property being valued.

## Property Classification

**RECOMMENDATION 11:** Follow regulatory guidelines when classifying and assessing water wells on property subject to CLCA contract.

The assessor classifies an irrigation well on CLCA property as unrestricted and, therefore, makes it subject to supplemental assessment. Under rule 124, however, a well should be classified as land, which in terms of the CLCA property is restricted. As restricted property, it should not be subject to supplemental assessment.

We recommend that the assessor correctly classify water wells as land and assess them accordingly.

## Taxable Government-Owned Property

Article XIII, section 11 of the California Constitution provides for the taxation of those properties owned by local governments located outside of the local government's boundaries that were taxable when acquired. These lands are commonly referred to as Section 11 properties.

Section 11 lands are assessed at the lowest of (1) the current fair market value, (2) the Section 11 value, or (3) the factored base year value.

Improvements owned by a local government located outside its boundaries are taxable if they were taxable when acquired or were constructed by the local government to replace improvements that were taxable when acquired. Non-replacement improvements constructed by a local government after acquisition are exempt. Taxable government-owned improvements must be assessed on each lien date at the lowest of:

- Current market value (i.e., full cash value, as defined in section 110).
- Factored base year value.
- Highest full value ever used in the taxation of the improvements.<sup>9</sup>

Sacramento County has only eleven Section 11 properties. One appraiser is responsible for those assessments.<sup>10</sup>

**RECOMMENDATION 12:** For Section 11 properties, enroll the lowest of: (1) the Section 11 value, (2) factored base year land value, or (3) current market value.

We found that the assessor does not consider the factored base year land value when enrolling the taxable value of a Section 11 property. Typically, the assessor calculates and compares the Section 11 value with its current market value and enrolls the lower of the two.

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<sup>9</sup> This third option applies only to replacement improvements constructed after March 1, 1954.

<sup>10</sup> Section 11 properties that also involved taxable possessory interests were reviewed as part of the taxable possessory interests topic.

We recommend the assessor consider the factored base year land value for each Section 11 property. This value should be compared with both the Section 11 value and current market value, and the lowest of the three values should be enrolled each year.

### **Valuation of Water Companies Properties**

Water company property on the local assessment roll may include property owned by municipal district water systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water companies. Each type of water company presents different assessment problems.

Sacramento County has three regulated water companies, six mutual water companies, and a myriad of smaller water source properties. Water company property has its own land use code within the assessor's data system. All private water companies are required to file annual business property statements

### **Private Regulated Water Companies**

Private, for-profit water companies are subject to rate base/rate of return regulation by the CPUC. In brief, this form of regulation limits the rate a company may charge to the cost of service plus a fair return on rate base, or invested capital (i.e., the regulated book or accounting value of the company's assets). For this reason, the market value of a regulated water company should correlate closely with the historical cost less depreciation (HCLD) of the assets.

Consequently, the historical cost and income approaches to value are recommended. Also for this reason, the current market value of water company property is generally less than its factored base year value, making it necessary to review the taxable value of such property each year, comparing current market value with factored base year value.

The assessor correctly uses HCLD for this type of property. We found no problems with this program.

### **Mutual Water Companies**

A mutual water company is a private association of persons created for the purpose of providing water at cost for its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company.

When mutual water company shares are appurtenant to the land (i.e., connected with the use and enjoyment thereof), the value of the property owned by a mutual water company (or its members) is reflected in the values of the properties it serves and to which the individual shares attach. This means that the value of the water company's related land and improvements is wholly reflected in the base year values of the parcels serviced by that water company.

To avoid double assessment, the assessor should enroll only token values on the land and improvements of mutual water companies.<sup>11</sup> We reviewed the appraisal records of several mutual water companies in Sacramento County and found no evidence of double assessment.

**RECOMMENDATION 13:** Obtain specified information relative to each mutual water company in the county.

Our review of mutual water companies in Sacramento County was somewhat incomplete because the assessor does not maintain complete documentation regarding its mutual water companies. We can reach a conclusion regarding the assessor's procedures only when the assessor maintains complete information (e.g., water company property encumbered by debt).

We recommend the assessor's office obtain the following information about each mutual water company operating within the county:

- Articles of incorporation and any subsequent amendments.
- Bylaws and any subsequent amendments.
- Inventory lists of the lands and improvements owned by each mutual water company identified by assessor's parcel number.
- Lists of the properties served.
- Financial statements.

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<sup>11</sup> However, if there is excess capacity and water is sold to those outside of the mutual entity, a rare case, any resulting value should be assigned to the parcel or parcels on which the mutual water company assets are located.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

In Sacramento County, the assessor's personal property staff consists of 17 auditor-appraisers and 13 support staff who are responsible for 320 mandatory audits, the appraisal of personal property in more than 35,000 commercial, industrial, or agricultural accounts, approximately 447 general aircraft, and more than 17,500 vessels.

### **Audit Program**

A property tax audit is a means of collecting data relevant to the determination of taxability, situs, and value of property. An audit also ensures that taxable property has been reported accurately and assessed properly by the assessor. Based on the findings of an audit, the assessor may adjust the original assessment to reflect the values uncovered during an audit.

### **Mandatory Audits**

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more. The business division has a total workload of approximately 1,285 mandatory audit accounts.

Each year the assessor's office generates a computer listing of audit accounts. The accounts with a mandatory audit code (i.e., those with values over the \$300,000 threshold for four consecutive years) form the mandatory audit list.

**RECOMMENDATION 14:** Include the value of personal property exempt under the welfare exemption when determining whether an account is subject to a mandatory audit.

The assessor does not include entities exempt under the provisions of the welfare exemption in the mandatory audit program. However, section 469 does not exclude the value of exempt property when making a mandatory audit determination. Likewise, section 441 does not exclude the value of exempt property in the determination of whether an assessee must file a property statement. In the event that an assessee does not obtain a welfare exemption, audit records could provide the information needed to make an assessment.

We recommend the assessor include the value of property exempt under the welfare exemption when determining whether to perform a mandatory audit.

### **Nonmandatory Audits**

Nonmandatory audits are neither required nor prohibited. A comprehensive audit program includes a representative sampling of all sizes and types of property. Conducting nonmandatory audits is necessary to achieve this type of sampling. Implementing a comprehensive audit program will also identify problems, correct inaccurate assessments, improve assessee reporting, and

increase the assessor's understanding of the assessed property. The provisions of section 470 and rule 192 both facilitate nonmandatory auditing.

**RECOMMENDATION 15:** Develop a formal nonmandatory audit program.

The assessor does not regularly audit nonmandatory accounts (i.e., those with assessed values below \$300,000). Since most business property accounts do not meet the mandatory audit level, the assessor will not discover reporting differences in these accounts unless a problem triggers an audit.

The assessor should identify nonmandatory accounts needing review and schedule them for audit based on selection criteria such as identified discrepancies; accounts just below the mandatory audit level; inconsistent, incomplete, or non-filed property statements; type of business; or some combination of the above.

We recommend that the assessor develop a formal nonmandatory audit program.

### **Audit Checklist**

Use of an audit checklist increases the thoroughness and efficiency of an audit. For example, an audit checklist confirms that the auditor reviewed appropriate income tax returns for changes in control, it indicates when the auditor conducted a physical inspection of the property, and it documents the auditor's review of leased equipment. An audit checklist provides valuable information to the reviewer and provides documentation regarding the scope of the audit.

**RECOMMENDATION 16:** Require the use of an audit checklist in every audit.

The assessor has developed a comprehensive audit interview and checklist. The assessor's policies and procedures manual instructs the auditor to complete the audit interview and checklist. In general, the audits that we reviewed were well-prepared and contained adequate working papers and other documentation. An audit checklist, however, was not included in most of the working papers.

We recommend that the assessor ensure that the audit staff include the completed audit checklist in the working papers, as directed in the assessor's procedures manual.

### **Notice of Proposed Escape Assessment**

Section 531.8 provides, in part, that:

No escape assessment shall be levied under this article before 10 days after the assessor has mailed or otherwise delivered to the affected taxpayer a "Notice of Proposed Escape Assessment" with respect to one or more specified tax years. The notice shall prominently display on its face the following heading:

**"NOTICE OF PROPOSED ESCAPE ASSESSMENT"**

**RECOMMENDATION 17:** Adhere to statutory format requirements for the *Notice of Proposed Escape Assessment*.

Upon completion of an audit, the assessor mails a notification letter to the taxpayer. The letter provides written audit findings in accordance with section 469. If the audit reveals escaped property, the letter serves as a notice of proposed escape assessment. However, the assessor's audit notification letter does not contain a heading that prominently displays "Notice of Proposed Escape Assessment" as required by section 531.8.

We recommend that the assessor modify the letter to include the heading in the required format.

### ***Business Property Statement Processing***

Section 441 requires each person owning taxable personal property having an aggregate cost of \$100,000 or more or upon request of the assessor to file a signed property statement annually with the assessor. Annual property statements form the backbone of the personal property assessment program. These statements cover a wide variety of property types, including businesses, agriculture, boats, and aircraft.

### **Assessment Coordination**

The personal and real property staff of any assessor's office should coordinate information obtained through the business property statements, as well as other information obtained by the office. For example, taxpayers report information concerning changes in ownership, taxable trees, vines, perennials, improvement costs (i.e., structures and fixtures), and the costs of construction in progress on the lien date. Coordination of this information between the business and real property staff can help prevent duplicate or escape assessments.

The assessor's written procedures discuss screening property statements for leasehold improvements (i.e., structures and fixtures). The business property division assesses all fixture items reported on Schedule B of the business property statement. According to the assessor's procedures, property statements should be forwarded to the real property staff if the assessee reports structure item costs of \$10,000 or more on the Schedule B. We found no problems with their coordination.

### **Equipment Valuation**

Taxable values of business equipment are calculated using historical costs and valuation factors. The valuation factors are derived from price index factors and percent good factors that measure depreciation. Accurate assessments of business equipment depend on the proper choice and application of these price index and percent good factors. The BOE annually publishes equipment price index and percent good factors in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

AH 581 includes 12 categories, or types, of indices for commercial equipment, six categories for industrial equipment, and one category each for agricultural equipment and construction equipment. The percent good factors are set out in three tables: one for machinery and equipment,

one for agricultural equipment, and one for construction mobile equipment. The percent good factors for agricultural equipment and construction mobile equipment include factors for both new and used equipment.

**RECOMMENDATION 18:** Use the appropriate price index and percent good factors from the AH 581 for the category of equipment being appraised.

The assessor uses the price index factors from the AH 581 to appraise machinery and equipment, but not in the manner intended. Rather than using the specific price index factor for each category of property, staff use the arithmetic average of the 12 categories of commercial equipment as the price index factor for all commercial equipment. Similarly, they use the arithmetic average of the six groups of industrial equipment price indices as the price index factor for all industrial property.

Because the price index factors vary for each property category, the assessor should use the factor specific to the type of property being valued. Although using an average factor may result in a small difference in total county assessment, it distorts the accuracy of specific categories. Using an average price index factor sacrifices accuracy for convenience and may result in inequitable treatment of certain taxpayers.

In addition, the assessor uses a minimum valuation factor of 20 percent (as discussed earlier, a valuation factor is the product of a price index factor and a percent good factor). Any given property may not be "average" or "typical" for its type and age. In valuation practice, the appraiser should recognize any deviation from the typical in the property being appraised and adjust the valuation factor accordingly. Arbitrary minimum valuation factors are not good appraisal practice.

We recommend the assessor use the price index and percent good factors in the AH 581 as intended.

### ***Valuation of Other Personal Property***

#### **Computers**

For the 1997 lien date, the BOE issued Letter To Assessors (LTA) No. 97/16 containing new valuation factors for computers. The tables for small computers and mainframe computer systems represent a recalculation of the market data curves that were used to calculate values for computers in those categories for the 1996 lien date. The table for mid-range computers represents new curves based on all data accumulated to date. To develop these tables, the Members of the Board reviewed data presented by the Property Taxes Department staff, the California Assessors' Association, and representatives of the computer industry.

We found that the assessor properly used the composite valuation factors provided by the BOE in his valuation of non-production computers.

## Leased Equipment

Assesseees must declare all leased property (i.e., taxable property in their possession and use but owned by others) on their business property statements and provide details about the property. Examples of items to review include the owner's name and address, type of lease, year of acquisition, year of equipment manufacture, property description, lease or identification number, cost new, and annual lease payment.

In Sacramento County, leased equipment is assessed to the lessor, unless the lessor qualifies for a property tax exemption (e.g., a financial institution), or the property is leased subject to a conditional sales contract. The assessor maintains records of leased property in the file of the lessor.

**RECOMMENDATION 19:** Cross-reference the lessor and lessee files to ensure the continued assessment of leased equipment upon expiration of a lease.

Since leased property is assessed to the lessor, the assessor does not have a procedure to ensure that a lessee who acquires ownership of equipment at lease expiration reports it. Under the assessor's current procedures, if a former lessee who acquires ownership of leased equipment fails to report the equipment on the property statement, the equipment will escape assessment.

We recommend that the assessor cross-reference leased equipment reported by the lessor with leased property reported by the lessee, so that upon expiration of a lease, all leased equipment is discovered and properly assessed.

## Vessels

For the 1998-99 assessment roll, 17,375 vessels were assessed with a total assessed value of about \$162 million. The assessor's staff values vessels using reported purchase prices, the results of its own annual market study, and boat valuation guides (e.g., NADA, BUC, and ABOS).

Additionally, the staff uses several sources to discover taxable vessels, e.g., Department of Motor Vehicles (DMV) reports, marina lists, and statements from prior boat owners. The assessor also receives monthly boat registration records from the DMV. DMV boat records provide useful descriptive information and comparable sales data. If the DMV information is complete, the assessor often values a vessel without further research.

**RECOMMENDATION 20:** Require owners of vessels costing \$100,000 or more to file an annual BOE-prescribed vessel property statement.

Any person owning taxable personal property with an aggregate cost over \$100,000 must file an annual property statement with the assessor. Rule 171 prescribes the content and the form of property statements. The assessor does not mail a property statement to a vessel owner even if the cost of that vessel exceeds \$100,000. Instead, the assessor requires an owner to file an alternative form (*Vessel Owner's Report*) only when there is insufficient information to make an accurate assessment.

We recommend that the assessor annually send a vessel property statement to all owners of vessels costing \$100,000 or more.

**RECOMMENDATION 21:** Remove the section 463 penalty language from the *Vessel Owners' Report* form.

The assessor included the section 463 penalty language on his *Vessel Owners' Report* form. Since this is not a BOE-prescribed or BOE-approved property statement, the section 463 language should not be included on the form since it is unenforceable.

We recommend that the assessor delete the section 463 penalty language from the *Vessel Owner's Report* form. However, if the assessor wishes to apply the section 463 penalty for nonfilers, he should send the BOE-prescribed vessel property statement.

### **Aircraft**

Prior to the 1997 lien date, the BOE had published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook section. On January 8, 1997, the Board members approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. As stated in LTA No. 97/03, the Board Members 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 a market value in the hands of the user.

For the 1998-99 assessment roll, the Sacramento County Assessor assessed approximately 447 general aircraft with a total assessed value of about \$39.5 million. The assessor has an effective program to discover taxable aircraft that includes a review of the following: Federal Aviation Administration (FAA) reports, aircraft manager reports, county airport tenant lists, and transmittals from other county assessors.

In the appraisal of general aircraft, the assessor uses the *Aircraft Bluebook Price Digest* as its primary reference. Staff calculates the assessed value by reducing the guide's list price by 10 percent, adding sales tax, and making adjustments for engine hours, avionics, major damage history, and general condition. In general, the assessor's valuation of general aircraft conforms to property tax law and BOE guidance. In the assessment of certificated aircraft, the assessor is in compliance with statutory provisions.

### **Manufactured Homes**

Although the assessor should classify manufactured homes as personal property, their assessment—in most respects—falls under the same standards as real property subject to article XIII A of the California Constitution. In the assessment of manufactured homes, the assessor relies on data provided by the State Department of Housing and Community Development (HCD) and dealer sales reports.

There are from 5,500 to 6,000 manufactured homes on the assessment roll in Sacramento County, the vast majority of which are located in the county's 106 manufactured home parks. Their assessment is the responsibility of one appraiser. The appraiser's primary source of assessment information about manufactured homes (e.g., discovery, change in ownership, voluntary conversion from vehicle license fee to property taxation) comes from reports issued by the HCD.

Section 5813 provides that for each lien date after its base year value is established, the taxable value of a manufactured home is the lesser of its current market value or its factored base year value. This is the same treatment given real property that is assessed under article XIII A of the California Constitution.

**RECOMMENDATION 22:** Annually review manufactured home assessments for declines in value.

The assessor reviews a manufactured home assessment for a decline in value only upon the owner's request, the filing of an assessment appeal, or a reappraisal due to a change in ownership or new construction. Given the rapid depreciation of many manufactured homes, it is likely that a manufactured home has declined in value each year.

To ensure that manufactured homes are not over-assessed, we recommend that the assessor annually review manufactured home assessments for a decline in value.

**RECOMMENDATION 23:** Develop written policies and procedures for the assessment of manufactured homes.

There are no written policies and procedures for the assessment of manufactured homes. While the incumbent appraiser has acquired a thorough knowledge of the subject, written policies and procedures would assist those who follow. From a management perspective, written procedures would promote uniformity and provide a means of verifying that current practices conform to law.

We recommend that the assessor develop written assessment policies and procedures relating to manufactured home assessment.

**RECOMMENDATION 24:** Classify and enroll manufactured homes as personal property.

The assessor currently enrolls all manufactured homes as improvements. That procedure does not conform to section 5801 which requires that manufactured homes should be classified as personal property.

A manufactured home that is classified as personal property is exempt from property taxation under the following conditions:

- Owned by a dealer who holds it for sale or lease.
- Owned by out-of-state military personnel on active duty in California.
- Owned by a bank, insurance company, or financial corporation.
- Owned by a government agency, but is used by a person or legal entity.

Incorrect classification may affect the application of the above personal property exemptions. Regardless of exemption status, incorrect classification may also affect the amount of property tax levied because certain special assessments are not levied against personal property.

We recommend that the assessor properly classify manufactured homes as personal property.

## APPENDICES

### ***A: County Property Tax Division Survey Group***

#### ***Sacramento County Assessment Practices Survey***

***Chief, County Property Tax Division***

Charles Knudsen

***Survey Program Director:***

Gene Palmer

Principal Property Appraiser

***Survey Team Supervisor:***

Arnold Fong

Supervising Property Appraiser

***Survey Team Leader:***

Paul Lane

Senior Specialist Property Appraiser

***Survey Team:***

Lloyd Allred

Associate Property Auditor Appraiser

Pam Bowens

Associate Property Auditor Appraiser

Zella Cunningham

Associate Property Appraiser

Ladeena Ford

Associate Property Auditor Appraiser

Russ Kovanda

Associate Property Appraiser

Michael Lebeau

Supervising Property Appraiser

John Ramsey

Associate Property Appraiser

Diane Yasui

Associate Property Appraiser

Denise Owens

Tax Technician II

### ***B: The Assessment Sampling Program***

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessment<sup>12</sup> 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 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 or 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).<sup>13</sup>

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.

**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.

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<sup>12</sup> 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.

<sup>13</sup> 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 \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

**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, which is sufficient in size to reflect the assessment practices within the county, is drawn for field investigation. 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 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 a written response to the findings and recommendations contained in the survey report. The survey report, the assessor's response, if any, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Sacramento County Assessor's response begins on the next page.

**COUNTY OF SACRAMENTO**

Office of the Assessor

**KENNETH D. STIEGER, ASSESSOR**

**JOHN SOLIE, ASSISTANT ASSESSOR**

December 12, 2000

Mr. Charles Knudsen  
County Property Tax Division  
The State Board of Equalization  
PO Box 942879  
Sacramento, CA 94279-0062

Dear Mr. Knudsen:

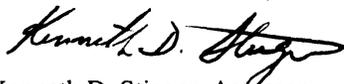
Enclosed is our response to the Board's recent Assessment Practices Survey of our office and its twenty-four recommendations. This response is made pursuant to section 15645 of the Revenue & Taxation Code, and we request its inclusion with the final published survey report.

We would like to express our sincere appreciation for the very professional and considerate manner in which the Board Survey Crew conducted itself while surveying the office and interviewing our staff. My office regards the survey process as a very important function of the Board and we welcome the sorts of constructive criticism and helpful suggestions the surveys provide generally, and as they specifically provided in this instance.

As you know, it is often difficult for those close to a process to recognize its flaws, and we appreciate any program that helps to identify and correct errors or inefficiencies in our procedures and operations. In the final analysis, it will always be our goal to provide accurate, timely and fair assessments, while at the same time providing the highest possible level of benefit to the taxpayers and customers whom we serve. We believe the survey process helps us achieve that goal.

I would also like to recognize my staff for the outstanding service they provide to the Sacramento community on an ongoing, daily basis. These dedicated men and women are the reason my office is able to achieve its goals in serving the public.

Sincerely,



Kenneth D. Stieger, Assessor

*Ltr Knudsen 12-12-00*

## **The Sacramento County Assessor's Office**

### **Assessor's Responses to State Board of Equalization Assessment Practices Survey Recommendations and Suggestions**

**Recommendation 1:** Forward welfare exemption claims to the Board in a timely manner.

**Response:** The small percentage of exemption claims that have suffered delays of any significance involve legal-entity issues that are typically the more complex and difficult to resolve. Additional staffing and organizational planning will help eliminate this backlog problem in the future. We will comply.

**Recommendation 2.** Correct assessment errors arising solely from real property declines in value within one year after enrolling the original assessment.

**Response:** For pragmatic considerations beneficial to both the taxpayer and the county, it has been the policy of this office to use the Tax-Change/Withdrawal process to resolve assessment appeals when we reach agreement with the taxpayer prior to a formal hearing. We use this process regardless of the type of appeal involved (base year, supplemental, Prop. 8, and etc.).

Historically, most appeals are resolved within one year of their filing. However, a large backlog of appeals was generated by the 1990-97 real estate recession and some of those appeals took longer than one year to resolve. Unfortunately, our procedure, in concert with that backlog, occasionally put us in what appears to be a technical violation of the Section 4831 time limit for processing Prop 8 roll corrections.

Today we no longer suffer the huge appeal backlogs characteristic of the recent past, so it is unlikely this procedure will be problematic in the future.

Regardless of the apparent inconsistency between our procedure and the law, we believe no harm occurred because the results would have been precisely the same whether we used our procedure or the formal stipulation process for resolving appeals. The primary difference between the two processes is that the Tax-Change/Withdrawal process enrolls the correction much more quickly, gets the appropriate refund to the taxpayer much sooner, is much more simple to employ, and saves all concerned a great deal of time, labor and expense.

We strongly disagree with the comment in the survey draft that suggests it is inappropriate to condition the processing of a Tax Change on the signing of an appeal withdrawal, and feel it imperative the procedure require that condition.

**Recommendation 3:** Change the Notice of Application for Reassessment Due To Calamity to reflect the statutory time period for submitting an application for disaster relief.

**Response:** We agree with this recommendation and have already modified our *Notice of Application for Reassessment Due To Calamity* as suggested by the Board.

**Recommendation 4:** Timely apply the penalty for failure to file a change in ownership statement as prescribed in subdivision (a) of section 482.

**Response:** Subdivision (a) of section 482 provides for a penalty for failure to file a change in ownership statement (COS) within 45 days following a written request by the assessor.

Whenever we receive a deed evidencing a change in ownership that was recorded without the concurrent filing of a PCOR, it is our procedure to send the owner first a COS (and only a COS). If no response is forthcoming within 32 days following that initial mailing, we send the owner a second COS that also includes a "reminder notice." If no response has been received within 60 days following the initial mailing, a final notice is sent to the owner via certified mail that includes a "Notice of Penalty." The penalty itself is then assessed 133 days after the initial mailing.

It is our policy to wait until 45 days after we receive a signed return receipt for the final request delivered by certified mail (which we regard as irrefutable evidence that the owner actually *received* the notice) before assessing the penalty.

We developed our existing procedure long ago to ensure two things:

- 1) That the owner has in fact received the required notice (and our presumption is that the 45-day period would not begin to run until the owner has actually received the notice), and

2) That we actually collect the sales data because it is much more important to our overall mandate that we collect that data than it is to assess penalties. In other words, the primary duty of the Assessor is to assess property at market value, not penalize taxpayers who had no intent to violate the law.

In fact it has been our experience that most failures to file a COS are due to reasonable cause, not willful neglect, and are excusable under section 483. In fact, of those who file a COS within 60 days of receiving a "Notice of Penalty" and request abatement, roughly 90% are in fact abated under our Board of Supervisor's section 482(b) resolution.

While our procedure may not technically fit the precise letter of the law, it does fulfil its spirit. More importantly, we believe that in the final analysis, all appropriate penalties for willful neglect are in fact enforced, and no one rightfully subject to the failure-to-file penalty escapes it. Additionally, our procedure maximizes the number of COS's that are ultimately filed with the Assessor, thereby ensuring an ample supply of the market data that is the lifeblood of the assessment process.

Nonetheless, we intend to review our procedure in light of the Board's recommendation and will make appropriate adjustments.

**Recommendation 5:** Ensure that public information documents containing section 69.5 exclusion information conform to current statutory provisions.

**Response:** We have adopted the Board's recommendation, and that portion of question #10 of our *Proposition 60 (section 69.5) Question & Answers* handout regarding the future eligibility of co-owner claimants has been modified as suggested on both our handouts and our website.

**Recommendation 6:** Enter all building permit information on the building record for each parcel.

**Response:** Unfortunately, real-world budget limitations force us to prioritize the utilization of our resources. While some minor benefit might accrue to the historical record from the implementation of this recommendation, it must remain a low priority item for the time being.

We also believe that our current permit-screening procedure is efficient and effectively eliminates redundant and unnecessary handling of permits that do not require action under Proposition 13. It should also be noted here that the Board did not bring to our attention any examples of building permits that had escaped assessment as a result of our existing procedure.

Under our existing procedure, as each building permit indicating an assessable activity clears the screening process, it generates a transmittal document that is sent to the appraiser responsible for the parcel subject to the permit. As a result, even though a five-permit limitation in our AIMS system display results in older permits being deleted from AIMS as newer permits arrive, the appraiser is nonetheless made aware of all prior, assessable permits.

If the Board is suggesting that every permit we receive should be reviewed by an appraiser, input on the building record, and input in our electronic systems (including non-assessable, minor repair and replacement permits currently screened-out), then we would say that to do so would be fiscally irresponsible and result in a substantial waste of labor and time.

**Recommendation 7:** Comply with section 61(b)(2) to determine whether a renewal of a possessory interest (PI) is a change in ownership.

Response: Our current method of calculating the value of month-to-month PI's is an attempt to treat the taxpayer fairly and work effectively within the limitations of our resources.

Currently, it is our procedure to calculate the base year value of the month-to-month PI's using a reasonable term of possession. If we did nothing with the resulting values in subsequent years, they would increase steadily as the annual inflation factor was applied. Experience has shown us that the market values of these PI's do not inflate, so we reappraise them annually and, in effect, treat them as Prop 8 properties. It is much easier and more cost effective for us to handle them in this manner, and the procedure does not otherwise affect or involve the taxpayer.

While we may not be following the letter of the law in this instance, we will continue to process such PI's in this manner until additional resources become available that would facilitate our strict compliance with section 61(b)(2).

**Recommendation 8:** Improve discovery of taxable trees, vines, and non-living improvements.

**Response:** We agree with the Board's recommendation and, as workload allows, will attempt to comply.

Because building permits are rarely issued for agricultural improvements of this nature, discovering them is very difficult. We are exploring alternative means to overcome this shortcoming. This includes the establishment of a cooperative arrangement with the County Agricultural Commissioner for the reporting of known plantings to us, and by securing aerial photographs to assist in the discovery process as well.

**Recommendation 9.** Calculate and enroll the current estimate of value of property subject to the California Land conservation Act (CLCA) as required by section 423.

**Response:** While it is true that we were unable to calculate section 423 values for our CLCA properties on the 1998 and 1999 assessment rolls, that failure was due to higher-priority work that prevented a more complete review.

In the alternative, we did conduct a survey of rents and expenses of CLCA properties that revealed the fact that they had changed little from prior years. Additionally, the yield rate declined marginally, so our analysis indicated that we could shortcut the process by simply trending the prior values to compensate for any yield rate change. The resulting assessed valuations were the same as that which a revaluation would have produced, except that the trending methodology was much faster and more cost effective.

**Recommendation 10:** Use market-derived expense rates when estimating the value of CLCA property.

**Response:** The Board is apparently suggesting we use actual reported expenses to derive a rate, but we think that approach is problematic. Our expense rate is a market-derived rate using data obtained from our local Agricultural Commissioner that includes all the expenses a typical operator would incur. Data supplied by property owners is often unreliable because it normally includes only hard costs, while not including overhead and management expenses.

**Recommendation 11:** Follow regulatory guidelines when classifying and assessing water wells on property subject to CLCA contract.

**Response:** Wells, pumps and pressure systems are one appraisal unit; one part simply cannot function without the others. Additionally, their costs are normally reported to us as a single total. To separately assess these items as suggested would seem not only illogical, but would impose a huge burden on the Assessor because the corrective process would involve practically every rural property in the county.

**Recommendation 12:** For Section 11 properties, enroll the lowest of: (1) the Section 11 value, (2) factored base year land value, and (3) current market value.

**Response:** We agree with the Board's recommendation and will follow it as our standard policy in the future.

**Recommendation 13:** Obtain specified information relative to each mutual water company in the county.

**Response:** We agree that the data specified in the Board's recommendation should be gathered for the record. In fact, over the past few years, we have made a concerted and ongoing effort to update the files of all water companies operating in our county, including those of our mutual water companies.

Unfortunately, the discovery of mutual water companies and the gathering of appropriate data has been hampered somewhat by the fact that such companies are not regulated by the California Public Utilities Commission. However, we plan to continue our pursuit of mutual water company data in concert with the Board's recommendation.

**Recommendation 14:** Include the value of personal property exempt under the welfare exemption when determining whether an account is subject to a mandatory audit.

**Response:** While we do not disagree with this recommendation, we also believe our resources can be more effectively utilized in other areas of higher priority.

**Recommendation 15:** Develop a formal nonmandatory audit program.

**Response:** We currently conduct a small number of nonmandatory audits each year. We identify nonmandatory accounts in need of audit based on established criteria, including inconsistent and incomplete filings of property statements. We will expand our nonmandatory audit program as time and staffing permit.

**Recommendation 16:** Require the use of an audit checklist in every audit.

**Response:** We have a very comprehensive audit checklist already in place and our Audit Procedures Manual requires that the checklist be completed for every audit. Our audit staff has been reminded of this policy and we will monitor compliance.

**Recommendation 17:** Adhere to statutory format requirements for *Notice of Escaped Assessment*.

**Response:** We will modify our forms to reflect the mandated verbiage and prominently display the appropriate text. It should be noted that this statutory requirement applies only to the *Notice of Audit Result Letters*.

**Recommendation 18:** Use the appropriate price index and percent good factors from the AH 581 for the category of equipment being appraised.

**Response:** We employ an average of the indexes published in the AH 581 in appraising property. Internal studies have concluded that there is less than a one- percent difference using the average, as opposed to using a specific index. It is also true that the "service" index published by SBE in the AH 581 is itself an average of the eleven other commercial indexes, and the Board has recommended using this "service" index in a variety of properties. In any case, we do not believe our use of an average index materially effects the valuation of business property and fixtures.

**Recommendation 19:** Cross-reference the lessor and lessee files to ensure the continued assessment of leased equipment upon expiration of a lease.

**Response:** We disagree with this recommendation. While in theory it might seem appropriate, we believe it is entirely impractical to implement. We also believe it would not ensure the assessment of previously leased equipment as implied.

The text of the Board's recommendation states in part that " . . . if a former lessee who acquires ownership of leased equipment fails to report the equipment . . . the equipment will escape assessment," but the same is also true for any equipment a taxpayer fails to report on their Business Property Statement. We cannot ensure the assessment of non-reported, previously leased equipment, nor of any equipment that is not reported, without conducting an audit. Simply cross-referencing previously leased equipment and then reviewing a property statement will not ensure the reporting or the assessment of that equipment. It is also impractical because we lack the staff and resources to conduct an audit of every single account that has acquired leased equipment.

**Recommendation 20:** Require owners of vessels costing \$100,000 or more to file an annual BOE-prescribed vessel property statement.

**Response:** Although it is our opinion that the additional labor and printing expenses associated with compliance will far outweigh any potential benefit, we will comply with this recommendation.

**Recommendation 21:** Remove the section 463 penalty language from the *Vessel Owners' Report* form.

**Response:** We have removed the language from our *Vessel Owners' Report* form.

**Recommendation 22.** Annually review manufactured home assessments for declines in value.

**Response:** We agree with this recommendation; however, system design limitations and manpower shortages prohibit its immediate implementation.

**Recommendation 23.** Develop written policies and procedures for the assessment of manufactured homes.

**Response:** We strongly agree that there is a need for written policies and procedures regarding the assessment of manufactured homes and are currently working on just such a procedure.

**Recommendation 24.** Classify and enroll manufactured homes as personal property.

**Response:** We are in agreement with the Board's recommendation that manufactured homes should be classified as personal property. Classifying manufactured homes as real property improvements can result in very small errors in tax bill computation caused by the application of the "Base 2" portion of the tax rate to real property values that is not applied to personal property values.

The problem we face in correcting this oversight is that all current electronic systems supporting the mobilehome function would require programming modifications in order for us to properly implement reclassification. Inasmuch as we are already well into converting our existing AIMS system to the NewAIMS system and wish to avoid redundant programming fixes, we will implement the necessary reclassification changes as we convert to NewAIMS.

End of Assessor's Response

## BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Sacramento County Assessor elected to incorporate his response to the BOE's findings and recommendations in the published survey report. Section 15645 of the Government Code also allows the BOE to include, in the report, comments regarding the assessor's response.

**Recommendation 11: Follow regulatory guidelines when classifying and assessing water wells on property subject to CLCA contract.**

The assessor responds that wells, pumps, and pressure systems are one appraisal unit. He also states that one part simply cannot function without the others, and that their costs are normally reported as a single total. He believes that separate assessment is illogical and that correcting the assessments would impose an undue burden because the process would involve practically every rural property in the county.

Section 13 of article XIII of the California Constitution provides as follows:

**"Land and improvements shall be separately assessed."**

Section 602 of the California Revenue and Taxation Code provides in pertinent part that the local roll shall show:

- (e) The assessed value of real estate, except improvements.
- (f) The assessed value of improvements on the real estate.

Property Tax Rules 121 and 122 define, respectively, land and improvements. Property Tax Rule 124 sets forth examples of both land and improvements. In subdivision (b)(1), Rule 124 lists "Wells, both oil and water" as land.

The assessor's practice of classifying irrigation wells as improvements is clearly in violation of the law. The assessor's complaint that the corrective process would be unduly burdensome because the process would involve practically every rural property in the county is irrelevant. Since the practice is in violation of the law, the only recourse is to make corrections.

The assessor also states that the costs are reported as a single total. Virtually all single family residential sales are reported to the assessor as a single total. In those instances, the assessor allocates the assessment between land and improvement values as the law requires. Certainly, there are many resources available to the assessor to determine a reasonable allocation between wells and the pumps and pressure systems.