

SACRAMENTO COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 2016

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2016/012

March 30, 2016

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 Honorable Kathleen Kelleher, 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 therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Sacramento County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from April through May 2014. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Kelleher and her staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

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INTRODUCTION

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Sacramento County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Kathleen Kelleher, Sacramento County Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."¹ The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

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

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county.

This survey included an assessment sample of the 2013-14 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and

¹ Government Code section 15642.

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

disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.³

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

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

We conducted reviews of the following areas:

- Administration

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

- Assessment of Real Property

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

- Assessment of Personal Property and Fixtures

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

³ For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

EXECUTIVE SUMMARY

We examined the assessment practices of the Sacramento County Assessor's Office for the 2013-14 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit – the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

Many of our recommendations concern portions of programs which are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, the assessor is effectively managing the staffing, workload, staff property and activities, and assessment appeals programs. However, we made recommendations for improvement in the assessor's exemptions program.

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

In the area of personal property and fixtures assessment, the assessor has effective programs for the assessment of aircrafts and vessels. However, we made recommendations for improvement in the audit, business property statement, business equipment valuation, and manufactured home programs.

The Sacramento County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2013-14 assessment roll indicated an average assessment ratio of 99.98 percent, and the sum of the absolute differences from the required assessment level was 0.64 percent. Accordingly, the BOE certifies that Sacramento County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF SACRAMENTO COUNTY

Sacramento County is located in northern California, has 964.64 square miles of land area, and in 2013 was home to an estimated population of 1,462,131. The county has seven incorporated cities: Citrus Heights, Elk Grove, Folsom, Galt, Isleton, Rancho Cordova, and Sacramento, the county seat.

Sacramento County was one of California's original 27 counties founded on February 18, 1850. It is the eighth most populous county in California.

Sacramento County is bounded on the north by Sutter and Placer Counties, on the west by Yolo and Solano Counties, on the south by Contra Costa and San Joaquin Counties, and on the east by El Dorado, Amador, and Calaveras Counties.



FINDINGS AND RECOMMENDATIONS

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

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

- RECOMMENDATION 1:** Improve the administration of the disabled veterans' exemption by implementing a higher level of review for disabled veterans' exemption claims.....8
- RECOMMENDATION 2:** Improve the LEOP program by properly implementing the penalty process in accordance with section 482(b).....11
- RECOMMENDATION 3:** Improve the valuation of CLCA properties by: (1) classifying irrigation wells as land; (2) using an appropriate income stream for capitalizing restricted tree and vine income; and (3) using appropriate expenses in determining the income stream when valuing restricted land.13
- RECOMMENDATION 4:** Improve the taxable possessory interest program by discovering and assessing all taxable possessory interests....14
- RECOMMENDATION 5:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.15
- RECOMMENDATION 6:** Improve BPS processing by: (1) valuing taxable business property in accordance with section 501 when a property owner fails to file a BPS; and (2) applying a section 463 penalty when owners of apartment houses with personal property costing \$100,000 or more fail to file an annual BPS.....16
- RECOMMENDATION 7:** Apply the agricultural percent good factors, prescribed in Table 6 of the AH 581, as intended.18

RECOMMENDATION 8: Improve the manufactured home program by:
(1) documenting when manufactured homes are classified as real property pursuant to section 18551 of the Health and Safety Code; (2) properly determining the full cash value as of the date of change in ownership, as required by section 5802(a); (3) assessing manufactured homes at the lesser of the factored base year value or the current market value, as required by section 5813; (4) using an in-house percent good table to determine the depreciation value only when supported by a valid study; and (5) periodically reviewing manufactured homes for declines in value.18

ADMINISTRATION

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.⁴

Disabled Veterans' Exemption

In general, we found that the assessor has an effective disabled veterans' exemption program and that staff is generally knowledgeable in the statutes that govern the exemption. The assessor requires the appropriate documents to support a claimant's eligibility, such as proof of honorable discharge, disability rating letter from the Department of Veterans Affairs, marriage and death certificate if the claimant is an unmarried surviving spouse, or a household income worksheet when the low-income exemption is being claimed. However, we found an area where improvement is needed.

RECOMMENDATION 1: Improve the administration of the disabled veterans' exemption by implementing a higher level of review for disabled veterans' exemption claims.

We found that the assessor's staff has a good understanding of the statutes surrounding the disabled veterans' exemption. However, due to the numerous dates, figures, and calculations required to determine the proper exemption amount, processing errors are sometimes unavoidable. Occasional errors, such as using the wrong effective date of eligibility or termination, determining the applicable exemption based on ownership interest, applying late-filing provisions when none are warranted, or not applying late-filing provisions when they are warranted, may not impact the program as a whole because the errors are not consistent; however, such errors can sometimes significantly impact the amount of exemption for which the claimant is eligible. For instance, when a disabled veteran claimant has a partial ownership interest in his or her residence, the claimant is entitled to the full amount of the basic or low-income exemption, but is limited to the extent of the interest owned by the claimant.⁵ The exemption itself is not reduced by the percentage of the interest owned. In some of the examples we reviewed, we found that the assessor correctly calculated the amount of the exemption, while in other examples the assessor incorrectly reduced the scheduled basic exemption amount itself by the percentage of interest owned by the claimant. In one of these examples, the assessor's error caused a claimant to receive only about 50 percent of the exemption for which she was eligible.

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

⁵ Section 205.5(d)(3) and (d)(4).

The assessor's current procedure is for the supervisor to perform only a spot check on claims. However, due to the nature and complexity of the disabled veterans' exemption, we recommend that all claims be given a second review by a senior level staff member or by a supervisor before the exemption is granted or denied.

ASSESSMENT OF REAL PROPERTY

Change in Ownership

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

Legal Entity Ownership Program (LEOP)

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

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or

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

(2) the date of written request by the BOE.⁷ The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

We reviewed several records involving legal entities having experienced a change in control or a change in ownership. We found that the assessor does an effective job reassessing all property interests identified on the BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. The assessor also reviews additional properties owned by the entity that were not reported on the BOE-100-B. In addition, for legal entities that reported a change in ownership under section 64(d), the assessor confirms that a previous exclusion from reassessment was granted under section 62(a)(2) before reappraising the property for the event date reported on the BOE-100-B. The assessor uses Preliminary Change of Ownership Reports and newspaper articles to discover potential changes in control of legal entities. The assessor refers potential changes in control to the BOE by completing BOE-100-BR, *County Assessor Legal Entity Transfer Referral*. However, we found that the assessor does not always apply a penalty when a BOE-100-B is filed late.

RECOMMENDATION 2: Improve the LEOP program by properly implementing the penalty process in accordance with section 482(b).

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

Sections 480.1(a) and 480.2(a) state that whenever there is a change in control or ownership of any corporation, partnership, limited liability company, or other legal entity, a signed BOE-100-B shall be filed with the BOE at its office in Sacramento. Section 482(b) provides that if a person or legal entity required to file a BOE-100-B described in sections 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or ownership, or (2) the date of a written request by the BOE, a penalty of 10 percent shall be added to the assessment made on the roll.

The BOE provides the assessor with several reports, as well as copies of BOE-100-Bs, indicating whether a penalty applies. The assessor should review these reports and the BOE-100-Bs to identify entities with late-filings or failures to file and apply penalties accordingly. The information provided on the BOE-100-B assists the assessor in determining if a change in control or ownership has occurred and in making an accurate assessment of property. Form BOE-100-Bs filed after the due date are considered late and, therefore, are subject to penalty.

By failing to apply the required section 482(b) penalty, the assessor is not complying with statutory requirements, and is not treating taxpayers equitably.

⁷ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

California Land Conservation Act Property

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, for example, hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.⁸

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses, such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

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

In our review of the assessor's program for assessing CLCA properties, we found a number of areas where improvement is needed.

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

RECOMMENDATION 3: Improve the valuation of CLCA properties by: (1) classifying irrigation wells as land; (2) using an appropriate income stream for capitalizing restricted tree and vine income; and (3) using appropriate expenses in determining the income stream when valuing restricted land.

Classify irrigation wells as land.

The assessor incorrectly classifies irrigation wells as unrestricted improvements on CLCA property, subjecting them to supplemental assessment. The assessor's staff confirmed irrigation wells are classified as improvements. Pursuant to Rule 124(b)(1), wells are properly classified as land. As such, they should not be subject to supplemental assessment; instead, they should be valued at the restricted value under section 423. The assessor's current practice has resulted in overassessment of some CLCA properties.

Use an appropriate income stream for capitalizing restricted tree and vine income.

We found the assessor uses a straight-line declining income premise when appraising vineyards and orchards in all stages of production. To account for the shape of the income stream, the assessor adjusts the remaining economic life of the living improvements.

Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), beginning at page II-38, describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements is similar: (1) a period of development, when production (income stream) initiates and rises; (2) a period of maturity, when production remains relatively stable; and (3) a period of decline, when production drops as the improvements near the end of their economic lives.

By not recognizing the stage of production of a property, the assessor may be overvaluing vineyards and orchards in the development or maturity period.

Use appropriate expenses in determining the income stream when valuing restricted land.

The assessor is not deducting an expense charge for management, insurance, or maintenance from the income stream attributable to restricted land.

According to AH 521, expense charges for property management, insurance, and maintenance are legitimate deductions from the gross income attributable to the property. Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to the improvements must be subtracted from the expected gross income prior to capitalization. Expenses that can properly be deducted from the gross income attributable to the real property are those incurred by the owner in managing their investment in the real property.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.⁹

We reviewed a number of taxable possessory interest records and found one area in need of improvement.

RECOMMENDATION 4: Improve the taxable possessory interest program by discovering and assessing all taxable possessory interests.

We discovered potential taxable possessory interests at California State University, Sacramento, and at various private recreational piers on state-owned lands that have not been recognized by the assessor.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide a private benefit. Some uses at California State University, Sacramento, appear to meet these requirements and should be reviewed for possible assessment as taxable possessory interests. Private uses of public school property may be considered "used exclusively for public schools" and therefore fall within the scope of the property tax exemption provided in section 3(d) of article XIII of the California Constitution. However, these uses should be exempted only upon proper application by the possessor, by filing BOE-263-B, *Lessees' Exemption Claim*. In the absence of exclusive use for public school purposes or the filing of a claim for an exemption, a taxable possessory interest likely exists and should be assessed.

The leasing or renting of land for private recreational piers located on state-owned lands, like those along the Sacramento River, may also create a taxable possessory interest. Senate Bill 152 (Stats. 2011, ch. 585) repealed Public Resources Code section 6503.5, which allowed rent-free use of state-owned land for certain private recreational piers. It further enacted a new section 6503.5 which provides that the State Lands Commission shall charge rent for private recreational piers constructed on state lands. Effective January 1, 2012, the commission shall charge this rent to the land underneath the pier, not to the pier itself. Such leases should be reviewed for possible assessment as taxable possessory interests.

Failure to assess all taxable possessory interests results in escaped assessments.

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

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.¹⁰

During the surveyed assessment year, audit responsibility in Sacramento County rested upon ten line staff auditor-appraisers, two supervising auditor-appraisers, and a chief appraiser.

As noted above, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the statute requires the assessor to complete 200 audits per year. During the surveyed roll year of 2013-14, the assessor met the audit threshold by completing 102 audits of the largest assessments and 101 audits of all other taxpayers. However, audit production was not sufficient during other years within the survey period.

RECOMMENDATION 5: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found that the assessor has failed to meet the "significant number of audits" threshold during two of the most recent five years. The assessor completed 87 audits of the largest business property owners when 100 were required during the 2011-12 roll year. Furthermore, 186 of the 200 required audits were completed during the 2012-13 roll year.

Many counties conduct audits through the intercounty cooperative audit program, referred to as the California Counties Cooperative Audit Services Exchange, or CCCASE. The assessor maintained a heavy CCCASE audit workload during each of the assessment years where audit production fell short of statutory requirements. For 2013-14, by contrast, the assessor shifted resources away from the CCCASE workload and toward meeting the significant number of audits required by section 469. This policy contributed to the assessor's success in meeting mandated minimum audit production during the surveyed year.

An audit program is an essential component of any equitably administered assessment program. The audit process is a powerful tool which provides the business property assessment program with the means of verifying the accuracy of taxpayer reporting and aids in correcting

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

noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well-managed assessment program.

By failing to meet minimum audit production standards, the assessor was not in compliance with section 469 during the affected years and risked the possibility of allowing taxable property to permanently escape assessment.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program.¹¹

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, application of penalties, real property division coordination, and record storage and retention. In addition, we reviewed several recently processed BPSs. We found that all BPSs sampled and accepted by the assessor evidenced the proper usage of Board-prescribed forms and were completed in sufficient detail. Overall the assessor's BPS processing program is well administered. However, we found two areas in need of improvement.

RECOMMENDATION 6: Improve BPS processing by: (1) valuing taxable business property in accordance with section 501 when a property owner fails to file a BPS; and (2) applying a section 463 penalty when owners of apartment houses with personal property costing \$100,000 or more fail to file an annual BPS.

Value taxable business property in accordance with section 501 when a property owner fails to file a BPS.

When a completed BPS is submitted late, the assessor (1) correctly calculates the current market value of reported taxable business property owned and controlled by the property owner and (2) applies the statutory 10 percent penalty assessment. However, in cases where the BPS is not returned, the assessor does not calculate the current market value of the known taxable business property. The previous year's enrolled value is simply carried forward and a 10 percent non-filing penalty is added pursuant to section 463.

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

Section 441(b) provides that a BPS is considered late if it is not filed by May 7. If an assessee does not file a BPS by May 7, section 501 provides that the assessor shall estimate a value based on available information and add a 10 percent penalty to that estimated value. By simply carrying forward previously enrolled values and not applying current valuation tables to known costs, the assessor is enrolling arbitrarily determined values with no supporting basis. In order to be in conformance with section 501, any estimated enrollments should be supported by current market information and calculated using relevant valuation tables.

The assessor's current enrollment methodology, as applied to non-filing accounts, likely leads to erroneous value conclusions and is an improper application of the assessor's estimated assessment authority as prescribed in section 501.

Apply a section 463 penalty when owners of apartment houses with personal property costing \$100,000 or more fail to file an annual BPS.

Although the assessor sends an annual BPS to all owners of apartment houses with personal property costing \$100,000 or more, we found that the assessor is not applying the penalty for failure to file a BPS to the assessments of certain larger apartment house complexes.

Section 441 requires each person owning taxable personal property with an aggregate cost of \$100,000 or more to file a signed property statement annually with the assessor. Pursuant to section 441(b), a property statement is considered late if it is not filed by May 7. This section also requires that the penalty prescribed by section 463 be applied when statements are not filed by May 7 or amended statements filed after May 31. Pursuant to section 463, a penalty of 10 percent of the assessed value of the unreported taxable tangible property shall be added to the assessment on the current roll when persons required to file a property statement fail to do so.

The assessor's current practice is not legally supported and fails to comply with sections 441 and 463. Additionally, it results in inconsistent treatment of taxpayers.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.¹²

Mobile Agricultural and Construction Equipment Valuation Factors

The assessor currently utilizes separate factor tables for new and used mobile agricultural and construction equipment in accordance with the instructions on Table 5 and Table 6 in Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors*,

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

(AH 581). Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile agricultural and mobile construction equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. Where the condition is indicated, the assessor should use the "new" or "used" table. We reviewed the assessor's valuation tables related to this issue and found them to be correctly compiled in conformance with Board-recommended cost index and depreciation factors. However, we found a problem with the utilization of the mobile agricultural equipment factors.

RECOMMENDATION 7: Apply the agricultural percent good factors, prescribed in Table 6 of the AH 581, as intended.

We observed a number of instances where the assessor applied mobile agricultural equipment valuation tables to other agricultural related personal property. These tables are intended for the valuation of self-propelled machinery and related implements. Therefore, the assessor is incorrectly calculating current market value estimates of non-mobile agricultural equipment including, but not limited to, bins, air compressors, portable calf pens, portable pumps, welders, and generators. The mobile agricultural equipment percent good factors indicated in the AH 581 are based upon an exclusive set of market parameters. Accurate assessments depend on the judicious application of these tables. Mobile agricultural valuation tables will likely lead to inaccurate value conclusions when applied to other moveable, yet non-mobile taxable property.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.¹³

We reviewed several manufactured homes records and found areas in need of improvement.

RECOMMENDATION 8: Improve the manufactured home program by:
(1) documenting when manufactured homes are classified as real property pursuant to section 18551 of the Health and Safety Code; (2) properly determining the full cash value as of the date of change in ownership, as required by section 5802(a); (3) assessing manufactured homes at the lesser of the factored base year value or the current market value, as required by section 5813; (4) using an in-house percent good table to determine the depreciation value only when supported by a valid study; and (5) periodically reviewing manufactured homes for declines in value.

¹³ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Document when manufactured homes are classified as real property pursuant to section 18551 of the Health and Safety Code.

Foundations must conform to Health and Safety Code section 18551 before the home can be classified as real property. We found the assessor had classified manufactured homes as real property without documentation that the foundation system met the requirements of Health and Safety Code section 18551. A reference to the recorded HCD 433(A) form should be on-file.

Properly determine the full cash value as of the date of change in ownership, as required by section 5802(a).

In our review of several records of manufactured homes that experienced changes in ownership, we found that while the date of sale and sales price were documented in the records, the assessor did not determine the full cash value of the manufactured homes as of that date, in accordance with section 5802(a). Rather, the assessor enrolled the prior years' assessed value.

Section 5802(a) defines "base year value" as the full cash value of a manufactured home on the date the manufactured home is purchased or changes ownership. Furthermore, section 5803(b) provides that, in determining the full cash value of a manufactured home on rented or leased land, the assessor shall take into consideration, among other relevant factors, cost data issued pursuant to section 401.5 or sales prices listed in recognized value guides for manufactured homes, including, but not limited to, the National Automobile Dealers Association's *Manufactured Housing Appraisal Guide*.

The assessor's practice of not determining the full cash value of the manufactured home on the date the manufactured home is purchased or changes ownership may lead to an incorrect assessment of manufactured homes.

Assess manufactured homes at the lesser of the factored base year value or the current market value, as required by section 5813.

We reviewed the assessor's practices and discovered the assessor is incorrectly applying the Marshall & Swift quarterly cost multipliers as a component in the factor used when determining the adjusted base year value of manufactured homes. The Marshall & Swift cost multipliers are to be used to adjust the cost of building materials for manufactured homes based on the manufactured home's location.

Section 5813(a) provides that the taxable value of a manufactured home shall be the lesser of the adjusted base year value or its full cash value as of the lien date. The base year value is adjusted annually by an inflation factor not to exceed 2 percent of the prior year's value, as defined in section 51. The full cash value, as defined in Section 5803, means the fair market value of a manufactured home similarly equipped and installed, taking into account reductions in value caused by damage or other factors. Over the past five years, the BOE issued California Consumer Price Index LTAs 2009/059, 2010/069, 2011/056 and 2012/060, which provided the assessor with the inflation factors to be applied to the assessment rolls under review for this survey. The assessor's practice of using incorrect inflation factors may lead to incorrect assessments.

Use an in-house percent good table to determine the depreciation value only when supported by a valid study.

We found the assessor does not use the recommended percent good table as provided in Assessors' Handbook Section 531, *Residential Building Costs*, chapter 531.35–Manufactured Housing (AH 531.35). Instead, the assessor uses an in-house percent good table for depreciating manufactured homes. We found no supporting documentation or study to validate the assessor's depreciation schedule. According to AH 531.35, the depreciation or percent good table in the handbook is merely suggested as a guide for appraisers. If the assessor believes this percent good table to be inaccurate for depreciating manufactured homes in Sacramento County, the assessor can develop and use her own in-house depreciation schedule. However, the assessor should have a study or other documentation to support the depreciation used in Sacramento County. Without a recent and valid study or some other supporting data, the assessor's percent good table is not an acceptable depreciation schedule and should not be used when depreciating manufactured homes for valuation purposes. By using unsupported percent good tables to depreciate manufactured homes, the assessor may be enrolling incorrect assessments.

Periodically review manufactured homes for declines in value.

We reviewed the assessment of several manufactured homes not on a permanent foundation that were situated on fee owned land. We discovered that these manufactured homes have not been periodically reviewed for declines in value for several years. Instead, the values have remained constant.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. Though not required to reappraise all properties each year, the assessor should periodically review the assessments of all manufactured homes to ensure that declines in value of manufactured homes are recognized accurately and consistently. The assessor's practice may lead to overassessments.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2013-14 assessment roll:¹⁴

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$36,191,682,956
	Improvements	\$83,367,153,067
	Personal Property	\$850,594,506
	Total Secured	\$120,409,430,529
Unsecured Roll	Land	\$214,884,195
	Improvements	\$2,359,530,716
	Personal Property	\$3,327,746,346
	Total Unsecured	\$5,902,161,257
Exemptions¹⁵		(\$5,359,568,654)
	Total Assessment Roll	\$120,952,023,132

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:¹⁶

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2013-14	\$120,952,023,000	4.1%	4.3%
2012-13	\$116,146,415,000	-2.9%	1.4%
2011-12	\$119,555,174,000	-3.7%	0.1%
2010-11	\$124,133,701,000	-1.8%	-1.9%
2009-10	\$126,456,362,000	-7.2%	-2.4%

¹⁴ Roll values are from BOE-822, *Report of Assessed Values By City*, Sacramento County for year 2013-14

¹⁵ The value of the Homeowners' Exemption is excluded from the exemptions total.

¹⁶ Roll Values and Statewide changes are from the State Board of Equalization Annual Report, Table 7, years 2009-10 thru 2013-14

Table 3: Gross Budget and Staffing

The assessor's budget has grown from \$16,442,990 in 2009-10 to \$18,043,770 in 2013-14.

As of the date of our survey, the assessor had 152.7 budgeted permanent positions. This included the assessor, assistant assessor, 6 managers, 67 appraisers, 12 auditor-appraisers, 5 drafting/mapping technicians, 10.5 computer analysts, and 50.2 support staff.

The following table shows the assessor's total expenses budget and staffing over recent years:¹⁷

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2013-14	\$18,043,770	5.6%	152.7
2012-13	\$17,085,764	-0.9%	151.7
2011-12	\$17,238,785	-0.3%	151.9 ¹⁸
2010-11	\$17,285,961	5.1%	159.1
2009-10	\$16,442,990	-6.9%	161.5

Table 4: Assessment Appeals

The following table shows the assessment appeals workload over recent years:¹⁹

YEAR	ASSESSMENT APPEALS FILED
2013-14	2,729
2012-13	4,407
2011-12	6,662
2010-11	6,675
2009-10	8,696

¹⁷ Information provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

¹⁸ Per assessor, adjusted number per Adopted Final Budget.

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

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:²⁰

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2013-14	1,555	\$4,128,730,821
2012-13	1,394	\$4,137,248,871
2011-12	1,396	\$4,045,033,483
2010-11	1,362	\$3,519,129,235
2009-10	1,335	\$4,004,985,521

Table 6: Change in Ownership

The following table sets forth the total number of recorded documents and the total number of resulting reappraisable transfers for recent years:²¹

YEAR	REAPPRAISABLE TRANSFERS
2013-14	34,559
2012-13	40,411
2011-12	41,989
2010-11	41,425
2009-10	47,737

²⁰ BOE-802, *Report on Exemptions*, used for years 2009-2014.

²¹ Information provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

Table 7: New Construction

The following table shows the number of new construction assessments processed in recent years:²²

YEAR	NEW CONSTRUCTION ASSESSMENTS
2013-14	4,153
2012-13	2,663
2011-12	1,797
2010-11	3,081
2009-10	2,636

Table 8: Declines In Value

The following table shows the number of decline-in-value assessments in recent years:²³

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2013-14	77,149
2012-13	136,264
2011-12	228,605
2010-11	190,154
2009-10	161,637

²² Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

²³ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 through 2013-14.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Sacramento County

Chief

David Yeung

Survey Team Supervisor:

Andrew Austin

Supervisor, Property Tax

Survey Team Leader:

Tammy Aguiar

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Margie Wing

Senior Specialist Property Appraiser

Robert Marr

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Cheron Burns

Associate Property Appraiser

Cyrus Haze Ghazam

Assistant Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

Evan Becker

Staff Services Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	
<i>Government Code</i>	
§15640	Survey by board of county assessment procedures.
§15641	Audit of records; appraisal data not public.
§15642	Research by board employees.
§15643	When surveys to be made.
§15644	Recommendations by board.
§15645	Survey report; final survey report; assessor's report.
§15646	Copies of final survey reports to be filed with local officials.
<i>Revenue and Taxation Code</i>	
§75.60	Allocation for administration.
<i>Title 18, California Code of Regulations</i>	
Rule 370	Random selection of counties for representative sampling.
Rule 371	Significant assessment problems.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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

RECEIVED



**Sacramento County
Office of the Assessor**

Kenneth D. Stieger, Assessor
Kathleen Kelleher, Assistant Assessor

FEB 19 2016

County-Assessed Properties Division
State Board of Equalization

Administration

3701 Power Inn Road, Suite 3000
Sacramento, CA 95826-4329
www.assessor.saccounty.net
(916) 875-0760

February 16, 2016

Attn: Mr. David Yeung, Chief
County Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

Dear Mr. Yeung:

Enclosed is our response to the Board's recent Assessment Practices Survey and recommendations. This response is made pursuant to section 15645 of the Government Code for inclusion with the final published survey report.

These periodic surveys are a useful tool, providing constructive observation and suggestions for proper administration of the various functions carried out by the Assessor's Office. We believe this function is an important element that ensures that our property tax system is in compliance with current laws.

The report found the Sacramento County Assessor's Office successfully meets the requirements for assessment quality established by section 75.60 of the Revenue and Taxation Code. Additionally, the sample of the 2013-14 assessment roll indicated an average assessment ratio of 99.98 percent, meeting the eligibility requirement for reimbursement of costs associated with the administration of supplemental assessments.

The results of this audit reflect the hard work and dedication of the staff of this office. I am quite proud of the service they perform to achieve the goals of the Department, while striving to provide our customers with an informative and, more importantly, respectful experience.

Finally, we would like to acknowledge the professionalism and courtesy exhibited by the Board survey crew while reviewing the practices of this office. The team made efforts to minimize the disruption to this office, while conducting a thorough review. Please express my sincere appreciation to each and every one.

Sincerely,

A handwritten signature in cursive script that reads "Kathleen Kelleher".

Kathleen Kelleher
Sacramento County Assessor

Enclosure

Recommendation 1: Improve the administration of the disabled veterans' exemption by implementing a higher level of review for disabled veterans' exemption claims.

Response: We agree and are currently developing the disabled veterans' exemption program within the new Assessor Information Management System (NewAIMS). The implementation of this technology will improve processing accuracy and facilitate secondary review of each claim.

Recommendation 2: Improve the LEOP program by properly implementing the penalty process in accordance with section 482(b).

Response: We agree with the Board's recommendation and are currently developing a comprehensive LEOP penalty program in accordance with section 482(b).

Recommendation 3: improve the valuation of the CLCA properties by:

(1) classifying irrigation wells as land

Response: We disagree. We view wells, pumps, and pressure systems as one appraisal unit - - one part simply cannot function without the others. Additionally, the cost of a well, pump, pressure system, and septic system are typically reported to us as a single lump-sum figure without breakdown among the various integrated elements.

(2) using an appropriate income stream for capitalizing restricted tree and vine income;

Response: We disagree. We believe our method reflects the practices of producers in our area. In our experience, most living improvements are quickly replaced once they are beyond their maximum production potential. We do not see a long period of decline; rather the living improvements are replaced or grafted and thus enter a new exemption period. When resources become available, we will evaluate our policy and take steps to make the necessary adjustments if we determine our current process results in inaccurate valuations.

(3) using appropriate expenses in determining the income stream when valuing restricted land;

Response: We agree. As we move forward with the development of our new CLCA valuation program, we will allow for the deduction of management, insurance and maintenance expenses in the valuation of restricted land.

Recommendation 4: Improve the taxable possessory interest program by discovering and assessing all taxable possessory interests.

Response: We agree and will assess all taxable possessory interests discovered.

Recommendation 5: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

Response: We concur and have already taken steps to implement this recommendation.

Recommendation 6: Improve BPS processing by :

(1) valuing taxable business property in accordance with section 501 when a property owner fails to file a BPS

Response: We agree and have already implemented this recommendation.

(2) applying a section 463 penalty when owners of apartment houses with personal property costing \$100,000 or more fail to file an annual BPS.

Response: We agree and have already implemented this recommendation.

Recommendation 7: Apply the agricultural percent good factors, prescribed in Table 6 of the AH 581, as intended.

Response: We agree and have provided appropriate instruction to staff on the use of these tables.

Recommendation 8: Improve the manufactured home program by:

(1) documenting when manufactured homes are classified as real property pursuant to section 18551 of the Health and Safety Code;

Response: We believe that the HCD 433(A), as a recorded document, serves as the appropriate notice required by section 18551 of the Health and Safety Code.

(2) Properly determining the full cash value as of the date of change in ownership, as required by section 5802(a);

Response: We already do. For each change in ownership, the National Automobile Dealers Associations (N.A.D.A.) Manufactured Housing Appraisal Guide was used to determine the fair market value of the manufactured home. If the property was in a declined status at the time of the sale, it was already enrolled at current market value. Therefore, the new base value could be the same as the prior year's assessed value. Although admittedly the documentation was lacking, the full cash value for each of the manufactured homes referenced was properly enrolled.

(3) Assessing manufactured homes at the lesser of the factored base year value or the current market value, as required by section 5813

Response: We agree. The Assessor is developing a new manufactured home valuation application and will ensure that the lesser of the factored base year value or current market value is enrolled.

(4) Using an in-house percent good table to determine the depreciation value only when supported by a valid study;

Response: We agree and will incorporate this change in the new manufactured homes valuation program.

(5) Periodically reviewing manufactured homes for declines in value.

Response: We agree and have already implemented this recommendation.

BOE COMMENTS TO ASSESSOR'S RESPONSE

Recommendation 3: Improve the valuation of CLCA properties by: (1) classifying irrigation wells as land; (2) using an appropriate income stream for capitalizing restricted tree and vine income; and (3) using appropriate expenses in determining the income stream when valuing restricted land.

Assessor's Response: (1) We disagree. We view wells, pumps, and pressure systems as one appraisal unit - - one part simply cannot function without the others. Additionally, the cost of a well, pump, pressure system, and septic system are typically reported to us as a single lump-sum figure without breakdown among the various integrated elements.

BOE Comments to Assessor's Response:

Neither the appraisal unit nor the method in which its acquisition cost is reported is determinative of how property is classified and enrolled for taxation purposes. After the value of taxable property is determined, that value should be allocated to its constituent parts (i.e., land and improvements) pursuant to section 13 of Article XIII of the California Constitution and sections 607 and 608 of the Revenue and Taxation Code.

Assessor's Response: (2) We disagree. We believe our method reflects the practices of producers in our area. In our experience, most living improvements are quickly replaced once they are beyond their maximum production potential. We do not see a long period of decline; rather the living improvements are replaced or grafted and thus enter a new exemption period. When resources become available, we will evaluate our policy and take steps to make the necessary adjustments if we determine our current process results in inaccurate valuations.

BOE Comments to Assessor's Response:

The period or duration of declining income is not the issue. This recommendation addresses the fact there is no period of stabilizing and stable income stream attributed to living improvements.

Recommendation 8: Improve the manufactured home program by: (1) documenting when manufactured homes are classified as real property pursuant to section 18551 of the Health and Safety Code; (2) properly determining the full cash value as of the date of change in ownership, as required by section 5802(a); (3) assessing manufactured homes at the lesser of the factored base year value or the current market value, as required by section 5813; (4) using an in-house percent good table to determine the depreciation value only when supported by a valid study; and (5) periodically reviewing manufactured homes for declines in value.

Assessor's Response: (1) We believe that the HCD 433(A), as a recorded document, serves as the appropriate notice required by section 18551 of the Health and Safety Code.

BOE Comments to Assessor's Response:

We found the assessor had classified manufactured homes as real property without documentation that the foundation system met the requirements of Health and Safety Code section 18551. A reference to the recorded HCD 433(A) form should be on-file, not just recorded.