SAN FRANCISCO CITY AND COUNTY ASSESSMENT PRACTICES SURVEY

JUNE 2013

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No. 2013/031

June 28, 2013

TO COUNTY ASSESSORS:

SAN FRANCISCO CITY AND COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the San Francisco City and 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 Carmen Chu, San Francisco City and County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the San Francisco City and 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 July through August 2011. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The former assessor-recorder, Mr. Ting, and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG: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 San Francisco City and County Assessor-Recorder's Office.[1]

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

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code[2] section 75.60, the 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. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the San Francisco City and County Assessor-Recorder's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with officials in other public agencies in San Francisco City and County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2010-11 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office.

In February 2013, San Francisco Mayor Ed Lee appointed Carmen Chu as the San Francisco City and County Assessor-Recorder to replace the Honorable Philip Y. Ting, who was elected Assemblyman in November 2012 to represent the 19th District in the California State Assembly. Since our survey work concluded in August 2011, the reader should note the report addresses the administration of the assessor's office under Mr. Ting.

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, we noted that the assessor is properly handling staffing, workload, staff property and activities, assessment roll changes, and assessment forms. However, we found a need for improvement in the areas of appraiser certification, assessment appeals, and exemptions.

In the area of real property assessment, we found that the assessor has an effective program for valuing timeshares. However, we noted a need for improvement in the following programs: change in ownership, new construction, declines in value, taxable possessory interests, and leasehold improvements.

In the area of personal property and fixtures assessment, the assessor has an effective program for processing business property statements. We found improvement is needed in conducting audits, as well as assessing business equipment and vessels.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

The San Francisco City and County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2010-11 assessment roll indicated an average assessment ratio of 97.59 percent, and the sum of the absolute differences from the required assessment level was 2.74 percent. Accordingly, the BOE certifies that San Francisco City and County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Ensure appraisers meet the annual training requirements of section 671. 10

RECOMMENDATION 2: Improve the assessment appeals program by making consistent representations of sales data to the AAB. 14

RECOMMENDATION 3: Improve the administration of the church and religious exemptions by: (1) not requiring the claimant to provide a state or federal tax exemption letter in order to qualify for the church exemption, (2) ensuring that only qualifying properties are granted the church exemption, and (3) allowing the church exemption on leased property only if the exempt use occurs on lien date. 17

RECOMMENDATION 4: Improve the administration of the welfare exemption by: (1) pre-printing the maximum income allowed on low-income housing claim forms, (2) not accepting incomplete and/or improper claim forms filed by claimants, (3) verifying a claimant's continued eligibility for certificates issued by the BOE, (4) properly notifying claimants when a portion of the property is denied the welfare exemption, (5) not granting an exemption on property that is not held in the name of the claimant, and (6) not accepting claim forms filed before the lien date. 19

RECOMMENDATION 5: Improve the administration of the disabled veterans' exemption by: (1) applying the provisions of section 276 for disabled veterans' exemption claims that are not filed timely, (2) granting the disabled veterans' exemption on a prorated basis in accordance with sections 276.1 and 276.2, (3) granting the full exemption to the extent of the interest owned pursuant to section 205.5(d), and (4) requiring documentation that the claimant has been honorably discharged. 23

RECOMMENDATION 6: Improve the administration of the exemptions program by: (1) properly applying the late-filing provisions of sections 270 and 271 when applicable, and (2) maintaining complete files on all exemption claims.....25

RECOMMENDATION 7: Improve the LEOP program by timely reassessing all properties owned by a legal entity undergoing a change in control or ownership. 30

RECOMMENDATION 8: Improve the new construction program by: (1) eliminating the backlog of assessable new construction, (2) expanding appraisal record documentation, (3) enrolling construction in progress at its fair market value for each lien date, and (4) valuing completed new construction at its fair market value. 35

RECOMMENDATION 9: Develop a comprehensive appraisal program for review of properties that experience a decline in value.....39

RECOMMENDATION 10: Improve the taxable possessory interest program by: (1) discovering and enrolling all taxable possessory interests, (2) documenting and tracking all taxable possessory interest assessments, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) reappraising taxable possessory interests in compliance with section 61, (5) assessing only private uses on publicly-owned real property in accordance with Rule 20, and (6) properly issuing supplemental assessments. 41

RECOMMENDATION 11: Improve the leasehold improvement program by: (1) properly valuing structural improvements reported on the BPS, and (2) issuing supplemental assessments for structural leasehold improvements on the unsecured roll.....45

RECOMMENDATION 12: Modify the audit production report to better track the pool of largest audit accounts as defined by Rule 192. 49

RECOMMENDATION 13: Improve the business equipment valuation program by correctly classifying machinery and equipment reported on the BPS. 52

RECOMMENDATION 14: Annually assess vessels at current market value. 54

OVERVIEW OF SAN FRANCISCO CITY AND COUNTY

San Francisco City and County is the only consolidated city-county in California. Located at the northern end of the San Francisco Peninsula, it encompasses a total area of 231.9 square miles, which consists of 46.9 square miles of land and 185 square miles of water. San Francisco City and County is bounded on the west by the Pacific Ocean, the north by the Golden Gate Strait, the east by the San Francisco Bay, and on the south by San Mateo County. Included within its boundaries are several islands - Alcatraz, Treasure Island, Yerba Buena Island, and the Farallon Islands located 28 miles offshore in the Pacific Ocean. Small portions of Alameda Island, Red Rock Island, and Angel Island are also included within its boundaries. As of 2010, the city and county had a population of 805,235.

San Francisco County was one of the original 27 counties established by the California Legislature in 1850, and it has held a consolidated city-county status since 1856. Today, San Francisco is one of the top tourist destinations in the world. Famous landmarks include the Golden Gate Bridge, cable cars, and Chinatown. There are more than 200 parks maintained by the San Francisco Recreation and Parks Department, with the largest and best-known city park being the Golden Gate Park.

The following table displays information pertinent to the 2010-11 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	$73,119,656,374
	Improvements	$75,518,171,167
	Fixtures and Personal Property	$2,437,215,769
	Total Secured	$151,075,043,310
Unsecured Roll	Land	$677,515,878
	Improvements	$1,586,875,737
	Fixtures and Personal Property	$7,636,288,815
	Total Unsecured	$9,900,680,430
Exemptions[3]		($4,848,765,288)
	Total Assessment Roll	$156,126,958,452

The next table summarizes the change in assessed values over recent years:[4]

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2010-11	$156,126,958,000	4.2%	-1.9%
2009-10	$149,859,847,000	7.1%	-2.4%
2008-09	$139,886,104,000	8.9%	4.7%
2007-08	$128,512,356,000	8.5%	9.6%
2006-07	$118,457,665,000	7.7%	12.3%

[3] The value of the Homeowners' Exemption is excluded from the exemptions total.
[4] State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

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

Budget and Staffing

To enable the assessor to perform her duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so that the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments before an appellate body, and provide information and service to the public as needed.

The following table sets forth the assessor's gross budget and budgeted permanent staffing numbers for recent years:

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2010-11	$14,159,529	7.0%	116.35
2009-10	$13,234,777	10.8%	111.00
2008-09	$11,944,675	-21.0%	115.00
2007-08	$15,117,308	43.5%	104.00
2006-07	$10,536,191	46.2%	94.00

For the 2010-11 budget year, the assessor reported 116.35 budgeted permanent staff members. This included the assessor, 7.27 managers, 40 real property appraisers, 17 personal property auditors, 1 civil engineer (mapping), 1.77 information systems staff, 7 other technical/professional staff, and 41.31 support staff.

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the

market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

As shown in the prior tables, the gross budget has increased four of the past five years, with the most recent year showing an increase, while the total roll value has increased each of the past five years. During the same period, the assessor's workload has fluctuated. The number of reappraisable transfers due to changes in ownership has decreased three out of the last four years, with the most recent year showing a decrease, while the number of decline-in-value assessments has increased each of the last four years. The number of new construction assessments has been unstable, showing an increase one year and then a decrease the next, with the most recent year reflecting a decrease. The number of assessment appeals filed has increased two of the last four years, most recently showing a decrease.

These trends are shown in the following table:

WORKLOAD DESCRIPTION	2010-11	2009-10	2008-09	2007-08	2006-07
Reappraisable Transfers	7,856	8,612	7,867	8,659	9,630
New Construction Assessments	885	1,772	1,236	1,722	1,279
Decline-In-Value Assessments	18,492	17,629	4,437	2,735	2,718
Assessment Appeals Filed	6,114	6,620	2,476	988	1,365

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 64 certified appraisers on staff, including the assessor; 36 hold advanced appraiser's certificates. We found that the assessor and her staff possess the required appraiser's certificates. Additionally, we found that the personal property auditors performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In San Francisco City and County, the chief of the Standards and Planning Division is the training coordinator. She oversees the training and certification program for appraisers, and tracks individual appraisal education utilizing BOE annual reports. The assessor offers a $1,000 stipend as financial incentive to obtain an advanced certificate. In addition, appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible, since it is preferred for promotion.

During our review of the assessor's appraiser certification program, we found one area in need of improvement.

RECOMMENDATION 1: Ensure appraisers meet the annual training requirements of section 671.

At the time of our survey, according to the BOE report on training hours of certified staff, 11 appraisers were delinquent in continuing education hours. Section 671(a) provides that in order to retain a valid appraiser's certificate, an appraiser must complete 24 hours of training conducted or approved by the BOE each year. Section 671(b) provides that appraisers with an advanced appraisers' certificate need only complete 12 hours of training each year.

The BOE's training unit provides each assessor with an annual report, summarizing each appraiser's training and certification status. The assessor should ensure that all appraisers are current in their continuing education requirements. Failure to maintain the required continuing education could result in confusion about current appraisal procedures and practices, and could possibly lead to providing misleading information to taxpayers. Moreover, according to sections 671(a) and (b), failure to receive such training shall constitute grounds for revocation of an appraiser's certificate or advanced certificate.

Staff Property and Activities

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

In San Francisco City and County, all certified appraisers in the assessor's office are required to annually submit Form 700. The forms are submitted to and maintained by the assessor's chief administrative officer. Annually, the assessor certifies to the BOE that she and her staff have complied with the requirements of section 672 by disclosing their financial interests.

We found the assessor has written procedures for the assessment of property owned by staff in her office. The assessor's procedures include some of the following clauses:

- Require the annual reporting by all assessor-recorder employees and management staff, including their married/domestic partner spouses, of any real and personal property owned in the City and County of San Francisco. Employees include all regular, part-time, temporary, contractor, and Prop. F (retired annuitants) employees.

- The annual statement is due by January 31st. Any changes that occur after the filing of the annual statement must be reported as an addendum within 30 days of the event date.

- New employees must complete the annual form at the time of hire.

- The Assessment Standards Division supervisor (ASDS), or designee, is responsible for appraising all employee assessable events in a timely manner. If the appraisal is done by a designee, the ASDS reviews and signs the appraisal worksheet, validates the value methodology, and ensures proper enrollment.

- In the event staff of the Assessment Standards Division has assessable property activities, the deputy assessor will determine who will appraise those changes. The assessor or deputy assessor will resolve any conflicts in responsibility.

- The ASDS is responsible for the preparation and presentation of the assessor's position in response to all assessment appeals filed by employees or their families. The assessor ***will not*** stipulate a value on appeals filed by an employee or their families. All adjustments to an appealed property value must be determined through the hearing process by the assessment appeals board.

- This form (*Employee-Owned Property* form) does not replace Form 700, which appraisers and auditors are required to complete. Appraisers and auditors must annually file both Form 700 and the *Employee-Owned Property* form.

The assessor also has written policies and procedures in place to prevent conflicts of interest. Employees are not allowed to engage in outside activities, including self-employment, that conflict with his or her public duties. Employees may seek an advance written determination from the assessor or her designee about whether a proposed outside activity is incompatible and, therefore, prohibited. These requests for written determinations, including approvals and denials, are public records to the extent permitted by law. The assessor's policy clearly states that violation of the assessor's policy regarding conflicts of interest may subject an officer or employee to discipline, up to and including possible termination of employment or removal from office, as well as monetary fines and penalties.

In addition to the assessor's procedures, we reviewed the forms submitted by employees that related to financial or economic interests, as well as property files and assessments for property owned by the assessor and her staff. The assessor's policies and procedures for staff-owned properties are well administered and keep the assessor informed of any potential conflicts of interest. We found no problems with the assessor's staff-owned property and activities program.

Assessment Appeals

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

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of

equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

San Francisco Ordinance No. 37-67, which was last amended on October 27, 1999, provides for the creation of three assessment appeals boards (AAB). AAB No. 1 and AAB No. 2 each consist of five regular members and three alternate members. AAB No. 3 consists of five regular members; the regular members of AAB No. 1 serve ex officio as the regular members of AAB No. 3 concurrent with their service on AAB No. 1. Pursuant to sections 1622.1 and 1623.1, the San Francisco Board of Supervisors directly appoints regular and alternate members of the AAB. Current AAB members have documentation of qualifying experience on file with the clerk as required by section 1624.05(c), and have successfully completed the training described in section 1624.02(a) as required by section 1624.01(a). Each AAB acts separately and only as three-member panels designated by the clerk using a rotating system designed to assure that all members have an equal opportunity to participate as panelists.

All regular and alternate members appointed to AAB No. 1 and AAB No. 2 are deemed concurrently appointed as assessment hearing officers. A hearing officer may conduct hearings on applications where (1) the applicant is the assessee and has filed an application for reduction in accordance with applicable law, (2) the property under consideration is a single-family dwelling, condominium, or cooperative or a multiple-family dwelling of four units or less, and (3) the applicant has requested that the hearing be held before a hearing officer. The AAB is not bound by the recommendation of the hearing officer, and the applicant or the assessor is entitled to a full hearing before the AAB.

Assessment appeal applications are filed with the clerk. The clerk confirms applications are complete and timely filed. As required by section 1603(b)(3)(A), the assessor notifies the clerk and the tax collector by April 1 of each year as to whether notices of assessed value of real property on the secured roll will be sent by August 1. The filing period for assessment appeals in San Francisco City and County is July 2 through September 15.

The clerk sends copies of all applications to the assessor's office. The assigned area appraiser contacts the applicant or agent to determine what the issues are and whether the issues can be resolved prior to the appeals hearing. For income producing commercial properties, the assigned area appraiser must request in writing from the applicant or the agent documentation the appraiser feels is important in determining an opinion of value, such as requesting a copy of the rent roll for the property being appealed. The assigned area appraiser inspects the property – interior and exterior – to verify the assessor's records are accurate and up to date, and determines the value of the property using sales data, income data, and cost data. The principal appraiser or the chief appraiser must review and initial their approval of the appraisal.

The following table sets forth the assessor's assessment appeals workload for recent years:

YEAR	2010-11	2009-10	2008-09	2007-08	2006-07
Appeals Filed	6,114	6,620	2,476	988	1,365
Appeals Carried Over From Prior Year	5,143	1,049	623	1,155[5]	1,155
Total Appeals Workload	**11,257**	**7,669**	**3,099**	**2,143**	**2,520**
Resolution:					
Withdrawn	1,608	1,455	1,529	1,020	1,165
Stipulation	1,097	40	61	95	37
Appeals Reduced	824	392	181	86	226
Appeals Upheld	75	54	62	32	44
Appeals Increased	0	0	3	1	0
Other Determination*	639	585	214	131	138
Total Resolved	**4,243**	**2,526**	**2,050**	**1,365**	**1,610**
To Be Carried Over**	7,014	5,143	1,049	623[6]	910

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear, and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

San Francisco typically receives a mix of valuation issues, such as base year value appeals, decline-in-value appeals, change in ownership appeals, and new construction appeals. The majority of appeals involve residential properties of four units or less.

If statutorily permissible, the assigned area appraiser can make a recommendation for a reduction in value once it has been determined the assessed value exceeds the market value. If the applicant is in agreement with the proposed reduced value, the area appraiser sends the applicant a form letter and an AAB application withdrawal letter. The form letter and the AAB application withdrawal letter direct the applicant to return the form to the AAB within 15 days of their scheduled hearing date, and includes the AAB address and fax number. Once the applicant signs and returns the withdrawal letter to the AAB, the appraiser and the applicant are no longer required to attend the appeals hearing. If the AAB accepts the withdrawal of the application, the assessor's office then processes the appropriate roll correction.

If the applicant and the assigned area appraiser agree to a stipulated value, the appraiser sends a form letter to the applicant for their review and signature, informing them of the agreed stipulated value. The applicant, assessor, and city attorney sign the stipulation. All stipulated

[5] Incorrect number reported by the assessor for "Total Number of Appeals Held Over" on the 2007-08 *A Report on Budgets, Workloads, and Assessment Appeals Activities*, Table I, column (9). The number should be 910, not 1,155.
[6] Incorrect number reported by the assessor for "Outstanding Appeals Carried Over to Next Fiscal Year" on the 2007-08 *A Report on Budgets, Workloads, and Assessment Appeals Activities*, Table J, column (10). Based on the assessor's reported numbers, the number should be 778, not 623.

values are heard and approved by the AAB. We reviewed a sampling of assessment appeals resolved through stipulations and confirmed that the stipulated values had a reasonable basis.

If the assigned area appraiser determines after review that the assessed valuation is correct and that no change in value is warranted, a form letter is sent to the applicant informing them of this determination. The form letter gives the applicant an opportunity to either withdraw their application or continue forward with the appeals hearing. For those applications that continue to hearing, appeals presented before a hearing officer are handled by the assessor's representative (AR) from the Assessment Appeals Division of the assessor's office, while assigned area appraisers are responsible for presenting appeals before AAB No. 1 or AAB No. 2. However, if a recommendation from a hearing officer on an assessment appeal is rejected and appealed before AAB No. 1 or AAB No. 2, the AR may present before an AAB in those instances.

The administrator of the AAB and the assessor's administrative analyst track the progress of assessment appeals to ensure that all appeals are resolved timely. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

We attended hearings before AAB No. 2 and before a hearing officer; the assigned area appraiser and the AR were well prepared and adequately presented their cases. In addition, we reviewed copies of assessment appeals packets prepared and presented from prior hearings; the packets were well organized. However, we found an area in the assessment appeals program in need of improvement.

RECOMMENDATION 2: Improve the assessment appeals program by making consistent representations of sales data to the AAB.

We found that the assessor made materially different representations to the AAB with respect to the physical condition of the exact same comparable property used in several different appeals by several different appraisers in sworn testimony and submittals to the AAB.

Verification of sales data is an important step in the comparative sales approach, and the assessor should be consistent in her presentation of that sales data. The practice of making materially different representations to the AAB with respect to sales data, whether intentional or unintentional, deprives taxpayers of their right to a fair hearing before the AAB. In addition, this practice may call into question the reliability of the value conclusions being made and may weaken the assessor's position.

Assessment Roll Changes

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

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed,

for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

In San Francisco City and County, the assessor discovers escaped property utilizing newspaper articles, trade magazines, assessment appeals information, reported costs from BOE 571-L, *Business Property Statement* (BPS), and audits. The assessor also has a program that allows concerned taxpayers to report to the assessor suspected instances of unreported real estate transactions. The program was initially designed to assist in the discovery of unreported changes in ownership, but instances of suspected unpermitted new construction have also been reported.

The following table shows the number of roll changes, both corrections and escapes, processed for recent years:

YEAR	NUMBER OF ROLL CHANGES
2010-11	9,410
2009-10	15,104
2008-09	11,394
2007-08	9,515
2006-07	9,302

A large portion of the assessor's workload in roll changes has been due to her staff working on reducing a four-year backlog of permits for new construction and a four-year backlog of changes in ownership. In addition, the large increase in the number of roll changes reported for years 2008-09 and 2009-10 was due to an increase in the number of assessment appeals filed that required assessment roll corrections due to declines in value.

Escape Assessments – Real Property

The real property appraisers discover the need to process roll changes and escapes from their work-to-do lists. Each appraiser is given a spreadsheet listing all of their outstanding work. The list covers all outstanding work going back four years, and includes both changes in ownership and permitted new construction. Appraisers are instructed to process first any outstanding work from prior roll years where the statute of limitation for assessment is close to expiring to prevent the loss of potential tax revenue.

Appraisals are made by the appraisers directly onto a valuation work screen in the assessor's computer system. The valuation work screen is forwarded to a principal real property appraiser for review and approval. Once approved, the valuation work screen is forwarded to the information systems section, where an engineer batches all escape assessments processed for the week and updates the assessed values in the computer system to reflect the escape assessment. Each affected parcel is assigned a code of W-10 to designate that the actual enrollment of the corrected value needs to be withheld for a period of no less than 10 days. A *Notice of Proposed Escape Assessment* containing all the elements required by section 531.8 is prepared and mailed to the taxpayer.

After 10 days, the values are enrolled and transmitted to the auditor-controller to begin the billing process. The assessor then sends a *Notice of Enrollment of Escape Assessment* to assessees informing them of their rights to an informal review and to a formal appeal, and providing information on how to file an appeal of the escape assessment as required by section 534.

Escape Assessments – Business Personal Property

The personal property auditors discover property that has escaped assessment during audits and by reviewing BPSs. When processing a correction to the unsecured roll, the personal property auditor uses a form entitled *Adjustment To Unsecured Roll*. This form shows the assessed value for the roll being corrected, the proposed new values, and the difference. There is also a section on the form for the personal property auditor to cite the appropriate code section authorizing the correction and to instruct the auditor-controller to impose applicable penalties and the number of months to apply the section 506 interest assessment. The completed form, along with any supporting documentation, is forwarded to a principal personal property auditor for review and approval. Once approved, the form is forwarded to the business property's data entry section, where the appropriate roll years are updated with the proposed values. A *Notice of Proposed Escape Assessment* containing all of the elements required by section 531.8 is generated and mailed to the taxpayer.

After 10 days, the values are enrolled and forwarded to the auditor-controller to begin the billing process. The assessor then sends a *Notice of Enrollment of Escape Assessment* to assessees informing them of their right to an informal review and to a formal appeal, and providing information on how to file an appeal of the escape assessment as required by section 534.

For audits that cannot be completed timely, the assessor obtains a signed waiver of the statute of limitations from the taxpayer. This allows the assessor to make corrections to the unsecured roll and issue tax bills for escape assessments or allows the taxpayer to file a claim for refund beyond the specified statute of limitations.

The assessor has an adequate system in place for the processing of assessment roll changes, both corrections and escapes. We have no recommendations for this program.

Exemptions

Church and Religious Exemptions

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

both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

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

The following table shows religious and church exemption data for recent years:

YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2010-11	313	$238,351,464	146	$77,021,598
2009-10	313	$225,201,598	167	$92,956,611
2008-09	355	$241,424,572	185	$98,146,057
2007-08	357	$213,916,410	183	$89,995,871

We reviewed a number of church and religious exemption claims and found that the assessor properly adheres to the maintenance of the religious exemption by performing site inspections on a religious exemption claimant when the annual BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, is not returned to the assessor. However, we discovered a few areas where improvement is needed.

RECOMMENDATION 3: Improve the administration of the church and religious exemptions by: (1) not requiring the claimant to provide a state or federal tax exemption letter in order to qualify for the church exemption, (2) ensuring that only qualifying properties are granted the church exemption, and (3) allowing the church exemption on leased property only if the exempt use occurs on lien date.

Do not require the claimant to provide a state or federal tax exemption letter in order to qualify for the church exemption.

We found that the assessor does not grant the church exemption unless the church organization holds a state or federal tax exemption letter. The assessor sends BOE-267-F, *Assessor's Finding on Qualification of Property Use*, informing the claimant that qualification of property use has "NOT BEEN MET" and that the claimant needs to provide a "State or Federal Tax Exemption Letter" as a supporting document to meet the qualifications.

If the religious organization is filing under the *welfare* exemption, the entity must obtain an Organizational Clearance Certificate (OCC), and pursuant to section 254.6(c)(3), a prerequisite of an OCC is to provide a copy of a valid letter from the Internal Revenue Service (IRS) or Franchise Tax Board (FTB) stating the organization qualifies as an exempt organization.

Although most religious organizations do have tax exempt status with the IRS or FTB, statutes do not require it for an organization filing under the church or religious exemption. Requiring a copy of a state or federal tax exemption letter in order to be granted the church exemption is not supported by statutes and creates an unnecessary burden upon the claimant.

Ensure that only qualifying properties are granted the church exemption.

We found that in one instance the assessor granted the church exemption on a portion of property that was used for a parsonage. The church exemption is available only for property used exclusively for religious worship and reasonably necessary parking for those attending worship services.

Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267), states, "A church parsonage or rectory owned by a church society or religious body and occupied as a residence by the pastor or corresponding church dignitary does not qualify for the church exemption because it is not used for religious worship. However, it may be eligible for the welfare exemption under section 214." Claim form BOE-262-AH, *Church Exemption,* specifically notes that living quarters are not eligible for the church exemption. The church in question has an OCC; however, in this instance, the welfare exemption is not available on the property because the property is leased and is in the name of the pastor, not the church organization. Granting the church exemption on property used as a parsonage results in an exemption not allowed by statutes and results in a loss of revenue.

Allow the church exemption on leased property only if the exempt use occurs on lien date.

We found that in the instance of leased property, the assessor allowed the church exemption for the year, even though the lease did not begin until after the lien date of that year. Property that is leased must be used for exempt purposes on the January 1 lien date. On the other hand, if the lease is terminated mid-year, the exemption is not terminated at once, but the property should be reviewed on the following lien date for a determination of eligibility for the exemption. Allowing the church exemption when leased property is not used for exempt purposes as of lien date is contrary to law and results in an inappropriate exemption of value from the assessment roll.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The

assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table shows welfare exemption data for recent years:

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2010-11	1,173	$3,932,636,544
2009-10	1,189	$4,687,362,963
2008-09	1,306	$4,740,544,789
2007-08	1,202	$3,984,251,625

We reviewed a number of welfare exemption claims and discovered several areas where improvement is needed.

RECOMMENDATION 4: Improve the administration of the welfare exemption by: (1) pre-printing the maximum income allowed on low-income housing claim forms, (2) not accepting incomplete and/or improper claim forms filed by claimants, (3) verifying a claimant's continued eligibility for certificates issued by the BOE, (4) properly notifying claimants when a portion of the property is denied the welfare exemption, (5) not granting an exemption on property that is not held in the name of the claimant, and (6) not accepting claim forms filed before the lien date.

Pre-print the maximum income allowed on low-income housing claim forms.

We found that the assessor does not pre-print the maximum income allowed on the supplemental affidavits that accompany the claim forms used for low-income housing. On a few claims, we found that a claimant requesting an exemption on low-income housing property erroneously claimed moderate-income level units and entered the moderate-income levels. Section 214(f) extends the welfare exemption to elderly or handicapped housing. If eligibility of elderly or handicapped housing is based on the income level of the tenants, moderate-income levels are used to determine the portion of the property eligible for exemption. Section 214(g) extends the welfare exemption to property owned and operated by qualifying organizations and used exclusively for rental housing, which is occupied by lower income households; lower income levels are used to determine the portion of the property eligible for exemption.

BOE-267-L, *Welfare Exemption Supplemental Affidavit, Housing – Lower-Income Households*, must be filed if the property is owned by a nonprofit organization. BOE-267-L1, *Welfare Exemption Supplemental Affidavit, Low-Income Housing Property of Limited Partnership*, must be filed if the property is owned and operated by a limited partnership with an eligible managing general partner. BOE-267-L or BOE-267-L1 must accompany the first-time filing claim BOE-267, *Claim for Welfare Exemption (First Filing)*, or annual claim BOE-267-A, *Claim for Welfare Exemption (Annual Filing)*, when requesting a welfare exemption on low-income housing property.

Housing for lower income households can qualify for the welfare exemption to the extent that the income of the household residing in the unit does not exceed the maximum income allowed. Section 4 of both supplemental affidavits, BOE-267-L and BOE-267-L1, provides a table for the assessor to identify the maximum income allowed, based on the number of persons in the household, for the low-income housing unit to be eligible for the welfare exemption.

The BOE issues an annual Letter To Assessors (LTA) that lists the various income levels of households to qualify for the welfare exemption. The LTA is issued prior to the lien date with a sufficient amount of time to allow the assessor to include the income levels on the supplemental affidavits of the claim forms. The assessor's failure to pre-print the maximum income allowed on the supplemental affidavits of the claim forms may result in the claimant reporting units not eligible for the exemption and may result in the assessor granting exemptions on portions of the property not eligible for the exemption.

Do not accept incomplete and/or improper claim forms filed by claimants.

We found instances where the assessor accepted incomplete supplemental affidavits BOE-267-L, and other instances where the assessor accepted the wrong supplemental affidavit, accepting BOE-267-L in cases where BOE-267-L1 is required. We also found instances where the assessor accepted both supplemental affidavits BOE-267-L and BOE-267-L1 for the same property. In addition, we found that the assessor accepted annual claims BOE-267-A before the property received a finding of a full or partial exemption; in these cases a first-time filing claim BOE-267 is required.

Supplemental affidavits BOE-267-L and BOE-267-L1 each require the claimant to self-certify to statutory and regulatory requirements for exemption of low-income housing property. For example, BOE-267-L includes statutory and regulatory requirements for low-income housing property owned by a nonprofit and BOE-267-L1 includes statutory and regulatory requirements for low-income housing property owned and operated by a limited partnership with an eligible managing general partner (MGP). BOE-267 must be filed by the claimant for property until the claimant has received a finding of full or partial exemption.

The assessor's acceptance of incomplete and/or improper claim forms and supplemental affidavits could result in an exemption on ineligible property.

Verify a claimant's continued eligibility for certificates issued by the BOE.

We found that the assessor granted an exemption on property when the claimant did not have a valid SCC issued by the BOE. In some cases a new SCC was issued to a new MGP of the limited

partnership that owned and operated the low-income housing property, and in other cases there was no valid SCC at the time the low-income housing property was granted the exemption.

As previously discussed, the assessor may not grant an exemption on low-income housing property owned and operated by a limited partnership with an eligible MGP unless the claimant holds a valid SCC issued by the BOE. The claimant is required to provide a copy of their OCC and/or SCC with the first-time filing claim form filed with the county where the property is located. The assessor is required to annually verify that the claimant's certificate is still valid. According to AH 267, page 107, the assessor may verify the validity of certificates by viewing the list of organizations on the BOE's website. Lists of valid OCCs and SCCs are posted on the BOE's website with updates posted on a quarterly basis identifying newly issued or revoked certificates. By not verifying the claimant's continued eligibility for certificates issued by the BOE (OCCs and SCCs), the assessor may be granting exemptions on property not eligible for an exemption.

Properly notify claimants when a portion of the property is denied the welfare exemption.

We found that the assessor does not always notify claimants when a property is granted a partial exemption. Additionally, when finding sheets are issued, they do not always identify the fiscal year and they do not always identify the date issued. Further, in some cases claimants are notified of a partial exemption on annual claims using a *Notice of Change in Exemption*. This notice does not include statutorily required language that provides proper notification to the claimant.

Section 254.5(c)(2) provides that if the assessor finds the claimant's property ineligible for the welfare exemption, the assessor must notify the claimant in writing of that finding. The assessor must also provide notification that the claimant may seek a refund of property taxes by filing a claim for refund with the county board of supervisors. If the claim for refund is denied, the organization may file a refund action in superior court. By not issuing a finding sheet notifying claimants when a portion of the property is denied exemption, or issuing a finding sheet that does not include the fiscal year or required statutory language, the assessor is not providing proper notification to the claimant.

Do not grant an exemption on property that is not held in the name of the claimant.

We found that the assessor granted an exemption on property that was not held in the name of the claimant. Section 261(a) provides, in part, "…as a prerequisite to the allowance of either the veterans' or welfare exemption with respect to taxes on real property, the interest of the claimant in the property must be of record on the lien date in the office of the recorder of the county in which the property is located. Failure of the claimant to establish the fact of such recordation to the assessor constitutes a waiver of the exemption." The assessor granting an exemption on property not held in the name of the claimant is contrary to statute and may result in the exemption of ineligible property.

Do not accept claim forms filed before the lien date.

We found that the assessor accepted 2010 claim forms filed in 2009 and made a prospective determination that the property was eligible for exemption for 2010. Section 255(a) specifies that

an affidavit for exemption shall be filed with the county assessor between the lien date (January 1, at 12:01 a.m.) and 5:00 p.m. on February 15. Claim forms require the claimant to report the property description, primary and incidental uses of the property by the organization, and details about the owner and user(s) of the property. The information reported by the claimant allows the assessor to make an informed review of the organization's use of the property on the lien date; the use of the property on the lien date determines eligibility of the property for an exemption for the following fiscal year.

The assessor accepting claim forms before the lien date is contrary to statute and may result in the assessor granting exemption on property that is not eligible for the exemption.

Disabled Veterans' Exemption

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

The disabled veterans' exemption at the $100,000 basis requires a one-time filing, while the low-income exemption at the $150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The following table shows the disabled veterans' exemption data for recent years:

YEAR	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2010-11	140	$13,056,833
2009-10	139	$12,977,508
2008-09	140	$12,353,572
2007-08	143	$12,438,968

We reviewed several files, consisting primarily of new claims filed in 2007 through 2010. As in the other types of exemptions reviewed, all of the supporting documents necessary to determine the eligibility of a claimant were not consistently found in the file. For this reason, we were unable to determine if the assessor allowed the exemption based on limited information from the claimant or if the documents were available upon processing, but not properly filed. We found several areas in need of improvement in the administration of the disabled veterans' exemption program.

RECOMMENDATION 5: Improve the administration of the disabled veterans' exemption by: (1) applying the provisions of section 276 for disabled veterans' exemption claims that are not filed timely, (2) granting the disabled veterans' exemption on a prorated basis in accordance with sections 276.1 and 276.2, (3) granting the full exemption to the extent of the interest owned pursuant to section 205.5(d), and (4) requiring documentation that the claimant has been honorably discharged.

Apply the provisions of section 276 for disabled veterans' exemption claims that are not filed timely.

We found that the assessor grants first-time filers 100 percent of the eligible exemption amount on their property, even when claims were filed outside the deadlines for a timely-filed claim. In addition, we found a case where only a partial exemption of the eligible amount was granted, even though a timely claim was filed.

At the time of our survey, section 276.2(a) stated, "If property becomes eligible for the disabled veterans' exemption as described in Section 205.5 after the lien date, and an appropriate application for that exemption is filed on or before the lien date in the calendar year next following the calendar year in which the property became eligible, there shall be canceled or refunded the amount of any taxes, including any interest and penalties thereon, levied on that portion of the assessed value of the property that would have been exempt under a timely and appropriate application."[7] Accordingly, when filing late on an initial claim, which includes prior years, section 276 requires the assessor to grant a partial exemption of 85 percent of the eligible amount, and for the current year in which the initial claim is filed, 90 percent of the exemption is available if the claim is filed after February 15, but on or before December 10. When the assessor does not adhere to the timely or late-filing provisions, it causes an unequal treatment of claimants.

Grant the disabled veterans' exemption on a prorated basis in accordance with sections 276.1 and 276.2.

We found that in some cases the assessor based the effective date of the disabled veterans' exemption on the next lien date following the year of qualification, in which case the exemption is not reflected until the ensuing fiscal year. We also found that in one case the exemption was granted for the entire fiscal year when it should have been prorated for the number of days eligible for that fiscal year.

Section 276.1(b) provides, "Subject to the provisions regarding cancellations and the limitations periods on refunds, the disabled veterans' exemption shall apply beginning on the effective date, as determined by the USDVA, of a disability rating that qualifies the claimant for the exemption." Additionally, section 276.2(b) provides, "The entire amount of the exemption

[7] Effective January 1, 2012, Senate Bill 947 (Stats. 2011, ch. 351) amends section 276.2(a) to state, in part, "…an appropriate application for that exemption is filed on the <u>later of 90 days after</u> the <u>date on</u> which the property become eligible <u>or on or before the next following lien date</u>, …"

applies to any property tax assessment, including a supplemental and escape assessment, that was made and that served as a lien against the property. The exemption amount shall be appropriately prorated from the date the property became eligible for the exemption." Both statutes were amended as of January 1, 2007 to allow for the proration of the exemption to the date of qualification. Prior to the amendment, the exemption was based on eligibility as of lien date and applied for the ensuing fiscal year, a procedure the assessor appears to continue to practice.

The denial of the full exemption as of the date of qualification deprives claimants of the full amount of the exemption and any refunds to which they are entitled. In addition, granting the exemption for the entire fiscal year when the claimant only qualifies for a portion of the year allows the claimant a benefit for which they do not qualify. Both practices are contrary to statute.

Grant the full exemption to the extent of the interest owned pursuant to section 205.5(d).

We noted that the assessor did not take into consideration a partial 50 percent interest in property owned by a claimant, thus, granting a full exemption to the property.

Section 205.5(d) provides that "property that is owned by a veteran" or "property that is owned by the veteran's unmarried surviving spouse" includes the following: "…(3) Property owned with one or more other persons to the extent of the interest owned by the veteran, the veteran's spouse, or both the veteran and the veteran's spouse. (4) Property owned by the veteran's unmarried surviving spouse with one or more other persons to the extent of the interest owned by the veteran's unmarried surviving spouse…"

Granting the exemption based on 100 percent ownership when the claimant only has a 50 percent interest in the property allows the taxpayer a larger exemption on the property than is entitled, results in a loss of revenue, and is contrary to statutes.

Require documentation that the claimant has been honorably discharged.

We found that the assessor does not consistently require proof that the disabled veteran was honorably discharged. Article XIII, section 3 of the California Constitution specifically states that the veteran must be discharged under honorable conditions. The Department of Veterans Affairs indicates that a veteran is typically ineligible to receive a 100 percent disability rating if the discharge conditions were dishonorable; however, benefit compensation may be available under "general" or "other than honorable" discharge conditions. The assessor's practice of not requesting form DD-214 discharge papers or other verification of honorable discharge may result in the assessor granting exemptions to ineligible claimants.

Church, Religious, Welfare, Disabled Veterans' Exemptions Program

The assessor performs thorough site inspections on new claims to ensure use of the property meets the use requirements of the respective exemption.[8] However, there were a number of deficiencies that are applicable to each of the types of exemptions we reviewed. We found that

[8] Site inspections are required for welfare, church, and religious exemptions. No site inspections are required for the disabled veterans' exemption.

the assessor's exemptions file documents were not in a manner that was orderly or easily accessible. Many files contained only partial documentation, thus, in some cases it was undeterminable whether the assessor granted the exemption without the necessary documents or whether the documents were simply missing from the file and/or were never scanned. We recommend the following improvements for the exemptions program:

RECOMMENDATION 6: Improve the administration of the exemptions program by: (1) properly applying the late-filing provisions of sections 270 and 271 when applicable, and (2) maintaining complete files on all exemption claims.

Properly apply the late-filing provisions of sections 270 and 271 when applicable.

We found that the assessor is not consistent in applying the late-filing provisions for exemptions claims. In one case, when the claimant filed for both a prior year and a current year, partial exemptions of the eligible amounts were applied for both years, even though the current year's claim was filed timely prior to February 15. Although the claimant mistakenly dated the claim as the prior year (a common mistake when a new year has just begun), the assessor date stamped and also handwrote the receipt date, which indicated a timely filing for the current year. In another case, claims for years 2005 through 2008 were all dated June 9, 2008 by the claimant, yet the full exemption was granted for each of those years. For another claim, the assessor correctly applied only a partial exemption for the eligible amount on an annual filing, however, according to property records, a roll correction subsequently granted the full exemption for that year. In addition, we found several claims where the assessor had not indicated the date the claim was received by date stamping or manually writing the date on the claim form. As a result, we were unable to determine whether or not the claimants timely filed their claim forms.

Section 270 provides late-filing provisions for exemption claims that are filed outside the deadline for a timely filed claim. In addition, section 271 provides late-filing provisions for property acquired after the lien date. In order to make a determination as to whether a claim is filed timely or not, it is pertinent to denote the date received on the claim form. The assessor's practice of not applying partial exemptions when appropriate for late-filed claims is contrary to statute, results in unequal treatment of claimants, and results in the granting of property tax exemptions greater than allowed by statute.

Maintain complete files on exemption claims.

We found that the assessor's exemption claim files were incomplete. In some cases, the assessor was unable to locate the claims we requested for review. In other cases, the claims were located, but we were unable to determine how the assessor calculated the amount of the exemption applied to the property. We also found cases where the assessor was able to locate some of the claims and documents in a specific file, but other claims and documents for that file were missing.

By not maintaining complete files on exemption claims, the assessor may be improperly granting exemptions that are unwarranted.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.[9] Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for Board-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

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

The assessor participates in the annual forms approval process and timely submitted completed copies of the forms checklists to the BOE forms coordinator for the 2010-11 roll year as required by Rules 101 and 171.

The assessor furnishes Spanish versions of forms and accompanying instructions as required by section 255.8. The assessor also has translated the *Notice of Assessed Value* into Cantonese, Japanese, Russian, Spanish, Tagalog, and Vietnamese, as well as provided assessment information on her website in Spanish and Chinese. We commend the assessor on her efforts to provide assessment information to her constituents.

We reviewed Board-prescribed forms used by the assessor to ensure that the forms were current and had received approval for any modifications (if applicable). We also reviewed 91 county-developed forms to ensure that the forms did not include any inappropriate language, such as incorrect statutory references, inapplicable penalties, inaccurate filing deadlines, or unnecessary requests for information.

We found no problems with the assessor's administration of assessment forms.

[9] Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as taxable possessory interests, leasehold improvements, and timeshares.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

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 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 change in ownership.

Document Processing

The following table sets forth the total number of recorded documents received and the total number of reappraisable events in San Francisco City and County for recent years:

YEAR	RECORDED DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2010-11	31,180	7,856
2009-10	31,940	8,612
2008-09	26,719	7,867
2007-08	N/A	8,659
2006-07	N/A	9,630

The assessor's primary means of discovering properties that have changed ownership is through the analysis of deeds and other documents recorded at the recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents submitted for recordation for the transfer of ownership of real property. PCORs are available at both the assessor's and recorder's offices, as well as on the assessor's website. Local ordinance requires the assessor's parcel number (APN) on all deeds.

Using a list provided by the assessor, the recorder screens all recorded documents to extract and forward only the requested documents to the assessor. All requested recorded documents are coded by type and scanned into the assessor's computer system. PCORs are also scanned and merged with the related recorded document. Each week recorded documents and PCORs are printed and reviewed for completeness. The document numbers are confirmed, the sale price is verified against the documentary transfer tax noted on the deed, and the PCOR is attached to the related document.

If additional information is needed, or if the PCOR was incomplete or not provided, the documents are moved to a screening queue from which a technician processes letters requesting the necessary information and decides if an exclusion claim form should be sent to the property owner. In cases where a PCOR was not provided, the technician mails BOE-502-AH, *Change in Ownership Statement* (COS), to the property owner.

If additional information is not required, or once requested information is received, the documents are routed through the transfer section where the transfer technician concludes if the transfer results in a reappraisable event. If the transfer is determined to be a reappraisable event, an appraisal worksheet is generated, and the scanned documents and PCORs are routed to the real property section to be assigned to an appraiser for valuation.

The assessor also discovers potential changes in ownership through change of address requests, field checks by appraisers, and correspondence from transferors, transferees, attorneys, or family members. For deaths occurring within the city and county, potential changes in ownership are discovered through review of death records and communications with the city and county clerk or the city and county health department. For changes in ownership resulting from the death of a property owner, the assessor properly uses the date of death as the event date. In addition, reports received through the San Francisco Board of Supervisor's "Real Estate Watchdog" ordinance also aid in the discovery of potential changes in ownership. This ordinance allows the city and county to grant a financial reward to those parties who provide information leading to the detection of unreported changes in ownership. Persons wanting to report an activity may do so by going to the assessor's website and filling out a form online.

We examined several recorded documents and found the assessor conducts a proper and thorough review for reappraisable events.

Penalties

If a PCOR is not filed with the recorded document, a COS is sent to the property owner to obtain transfer information. Technicians track mailing dates of COSs and hold the recorded documents creating the change in ownership for 45 days.[10] If there is no reply from the property owner, the property record is released to the real property section for valuation and penalties are applied.

We examined several files where COSs were sent to the taxpayer and found that the assessor has an effective program for tracking their return and applying penalties where applicable.

[10] Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The list is available to the public on computer terminals in the lobby of the assessor's office. As required by section 408.1(b), the assessor's transfer list is divided into geographical areas by APN and revised quarterly. Pursuant to section 408.1(c), the transfer list contains the transferor and transferee, APN, address of the property, date of transfer, date of recording, recording reference number, and consideration paid. The assessor observes the confidentiality provisions of section 481.

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 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 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.[11] 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.

The assessor discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, newspaper articles, staff referrals, and referrals received from the "Real Estate Watchdog" ordinance.

[11] 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.

When the assessor receives the LEOP reports, the Transaction Unit reviews the effective dates and changes that have occurred. Parcels located within the city and county are identified and reviewed. A name search is also performed to ensure all of the entity's real property is reassessed. Once the real property parcels have been identified and the change in control or ownership has been determined to be a reappraisable event, the information is given to the real property division for valuation. When the assessor discovers late-filings of BOE-100-Bs, they impose an appropriate penalty.

We reviewed several properties owned by legal entities identified by the BOE as having undergone a change in control or ownership. Our review noted an area where improvement is needed.

RECOMMENDATION 7: Improve the LEOP program by timely reassessing all properties owned by a legal entity undergoing a change in control or ownership.

We found a number of parcels that were not reassessed, even though the assessor was aware of changes in control of the legal entities owning those parcels.

Section 64(c)(1) provides that when a legal entity acquires controlling interest of another legal entity by obtaining more than 50 percent of the voting stock or a majority ownership interest in that legal entity, there is a change in ownership of the real property owned by the legal entity being acquired.

By not reassessing properties owned by legal entities identified as having undergone a change in control or ownership, the assessor may be enrolling incorrect assessments for those properties. In addition, by not timely reassessing these properties, if the properties go unprocessed for four years or more, San Francisco City and County may lose revenue for the years beyond the statute of limitations for levying supplemental and escape assessments.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first $1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

To enforce the $1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. However, if an assessor opts not to report quarterly to the BOE, assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their $1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Section 63.1 information and applications are available to the public at the assessor's office and on the assessor's website. The following table sets forth the number of section 63.1 claims filed and granted in recent years:

YEAR	SECTION 63.1 CLAIMS FILED	SECTION 63.1 CLAIMS GRANTED
2010-11	1,152	1,152
2009-10	2,382	2,344
2008-09	N/A	1,444
2007-08	1,205	N/A
2006-07	2,499	N/A

Fluctuation in the number of claims over the past few years may be a result of changing market conditions. In recent years, there are more instances where current market value is lower than the base year value to be transferred and it is not advantageous to file a claim. The assessor is proactive regarding public awareness of potential change in ownership exclusions. If a PCOR or COS indicates that a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren), and a claim form was not submitted, the assessor sends a claim form and cover letter to the property owners advising them of a possible exclusion from reassessment. Transfer technicians hold transfer documents until a completed claim form is returned by the property owner or 45 days have lapsed. Transfer technicians review all section 63.1 applications and determine if the property owner is eligible for exclusion. The information is then sent to the real property section to apply the exclusion or reassess the property.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding $1,000,000* from the BOE, the transaction manager ensures the dates are correct, reviews the total value of transfers, disallows exclusions made after the limit is exceeded, and notifies appraisers of any assessable percentages. If necessary, contact is made with other counties to determine which property to exclude and which property to reappraise.

Pursuant to section 63.1(i), the assessor ensures that all claim forms are held confidential by keeping them in a locked and secure area not accessible to the public.

We reviewed several section 63.1 claim forms and found them to be properly processed.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

San Francisco City and County does not accept base year value transfers from other counties. Section 69.5 information and applications are available to the public at the assessor's office and on the assessor's website. The following table sets forth the number of section 69.5 claims filed and granted in recent years:

YEAR	SECTION 69.5 CLAIMS FILED	SECTION 69.5 CLAIMS GRANTED
2010-11	46	46
2009-10	32	30
2008-09	N/A	34
2007-08	40	N/A
2006-07	1,360	N/A

If a PCOR or COS indicates a transfer may involve a base year value exclusion, the process of notifying the property owner is similar to section 63.1 claims. Submitted claim forms are sent to the assigned appraiser, who determines the fair market value of both the replacement and original properties, computes the value comparison of the replacement property as needed, and determines if a section 69.5 claim will be granted.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. To avoid duplicate filings of a section 69.5 claim, the assessor reviews the *Duplicate SSN Report* when received from the BOE to determine if any claims made in San Francisco duplicate any claims within the city and county, any claims in another county, or any claims which may qualify for a second section 69.5 exclusion due to a severe and permanent disability.

Pursuant to section 69.5(n), the assessor ensures that all claim forms are held confidential by keeping them in a locked and secure area not accessible to the public.

We reviewed several section 69.5 claim forms and found them to be properly processed.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to confirm the reported sale price accurately reflects market value. The sale price is not automatically enrolled and may be overridden when data is available to rebut the presumption stated in Rule 2.

An in-house database of residential and commercial sales is kept in the assessor's computer system and is periodically updated. Residential properties experiencing a change in ownership are valued using the comparative sales approach or cost approach, while commercial and industrial properties are valued using the income approach. Partial interest transfers are correctly valued and added to the factored base year value of the remaining non-reappraisable portion of the property. The partial interest transfer is given a separate base year value and the correct inflation factor is applied when appropriate. Market value conclusions are documented on the appraisal record and supporting documents are placed in the file. Field inspections are conducted at the appraiser's discretion and judgment.

Our review of several files indicates the assessor properly values changes in ownership and correctly processes supplemental assessments.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraiser involvement. San Francisco City and County has a direct enrollment program for residential properties, including single family dwellings, cooperative units, timeshares, live/work lofts, and condominiums. To qualify for direct enrollment, the transfer must involve one of the residential use codes as indicated previously, must include a PCOR with the reported sale price, and must be a 100 percent change in ownership.

Sales meeting the criteria are run through the direct enrollment system. Summary sheets are printed and given to the appropriate appraiser for review. The appraiser reviews the summary sheet, confirms the use code and property characteristics, and determines if the sale price is within an acceptable market range. Appraisers do not make any comments or enter any valuation decisions on the appraisal record. Once the review is completed, the appraiser routes the sales acceptable for direct enrollment to the principal appraiser. If the appraiser's review cannot be completed quickly, indicates more research is needed, or the sale price falls outside the acceptable market range, the appraiser will reject the transfer from direct enrollment and the transfer will go through manual valuation.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements, including sewers, sidewalks, lighting, and water lines. Such public improvements generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with the 1911 and 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. The assessor can overcome this presumption by a preponderance of evidence. The San Francisco City and County Assessor presumes that the value of the improvements financed by the bonds is

reflected in the purchase price paid for the property exclusive of the bond amount and does not add the bonds to the purchase price.

New Construction

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

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

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

The assessor has written procedures, policies, and forms dealing with the discovery and assessment of new construction. The assessor's website provides general guidelines that the assessor uses to determine the assessability of new construction.

Discovery

Building permits are the assessor's primary means of discovering new construction. The assessor receives building permits from two permit issuing agencies: San Francisco Department of Building Inspection (DBI) and Port of San Francisco (PSF). Other discovery methods include field canvassing by appraisers in their assigned areas, as well as reviewing business property statements, newspaper articles, and aerial-viewing software. In addition, the assessor receives building plans electronically from DBI, while appraisers pick up building plans from PSF based on their assigned areas.

Permit Processing

When DBI receives applications for building permits for a new building, an addition, an alteration, a repair, or a demolition, the information on the permit is downloaded into the assessor's computer system every Saturday. The following Monday, the permit screener runs a check for any downloading errors. Although not required by ordinance, the assessor's parcel number is listed on the permit. The permit information is entered into the new construction screen and automatically sent to the appraiser's work queue. Any non-assessable permits are closed-out. A list of the permits that have been closed-out are printed monthly and reviewed by the chief of standards for accuracy. Each appraiser is responsible for monitoring the computer system for permits and permit finals in their assigned area.

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

YEAR	PERMITS RECEIVED	NEW CONSTRUCTION ASSESSMENTS
2010-11	20,923	885
2009-10	20,901	1,772
2008-09	23,262	1,236
2007-08	26,763	1,722
2006-07	27,589	1,279

When a permit for assessable new construction is received, the assessor mails a *Property Owner's Statement on New Construction* to the taxpayer to gather information, such as type of structural changes, diagram and square footage information, estimated completion dates or date of completion, and the total cost of the project. Once the statement is received, the appraiser reviews the information and values the new construction.

Valuation

The assessor values completed new construction by estimating the full value of new construction as of the date of completion. The date of completion for the new construction is determined by notices of completion from the building department, on-site reviews, or information received from the taxpayer. Unpermitted new construction is also enrolled as of the date of completion. If the date of completion cannot be determined from the property owner or from a permit issued after the completed new construction is discovered, appraisers use their best judgment to determine when the new construction was completed.

The assessor uses several cost information sources to value new construction for residential, commercial, and industrial properties. These sources include local building costs and owners' reported costs. Appraisers also send out letters to taxpayers with an attached *Cost Report* to gather information to assist in the valuation of the completed new construction. Each appraiser determines whether a field inspection is necessary based on the type of new construction being assessed.

After reviewing the assessor's new construction program, we found areas where improvements can be made.

RECOMMENDATION 8: Improve the new construction program by: (1) eliminating the backlog of assessable new construction, (2) expanding appraisal record documentation, (3) enrolling construction in progress at its fair market value for each lien date, and (4) valuing completed new construction at its fair market value.

Eliminate the backlog of assessable new construction.

We discovered lengthy delays in processing building permits and enrolling value added due to new construction. In a review of the assessor's records, we found numerous records in which completed new construction was not assessed until four years after the date of completion. This backlog of new construction assessments has also resulted in a backlog of supplemental assessments.

Section 532(a) requires that escape assessments be issued within a four year statute of limitations. If a new base year value is not processed before the beginning of the second assessment year following the change in ownership or new construction, an escape assessment results. Section 531.2(a) provides that an escape assessment shall not create or impose a lien on the property when the property has changed ownership or becomes subject to a lien after July 1 of the year of escape, but prior to the date of assessment and entry on the secured roll. Instead, the escape assessment shall be entered on the unsecured roll in the name of the person who would have been the assessee in the year of the escape assessment, and it shall be treated and collected like other taxes on the unsecured roll.

Although we recognize that the assessor has improved the processing of backlogged assessable new construction by valuing new construction within the four year statute of limitations, the backlog has resulted in delayed property tax bills for taxpayers, and a delay in the collection of revenue for San Francisco City and County. In addition, delays in issuing assessments may cause an unnecessary burden on taxpayers for payment of taxes. Taxpayers are entitled to timely notification of assessment.

Expand appraisal record documentation.

The assessor has improved appraisal record documentation by utilizing building plans to reflect new construction and including those plans in the property record. However, we reviewed several records and found many cases in which it was difficult to determine the basis for values enrolled for new construction.

Documentation supporting the value conclusion is a necessary element of any appraisal. When using the cost approach to value new construction, the appraiser should indicate the source of the costs being used and, if the appraiser uses the taxpayer's reported costs, the appraiser should demonstrate how those costs represent market value. Proper application of the cost approach requires appraisers to document the source of costs used in their appraisals. The practice of entering unsubstantiated costs can lead to improper valuation of partially completed or completed new construction. Proper documentation not only facilitates appraisal review, but also provides the means with which to defend values.

Enroll construction in progress at its fair market value for each lien date.

We found property records indicating ongoing construction projects over several years where the assessor did not enroll any value for the construction in progress as of the lien dates, even though there was evidence of partially completed structures on those lien dates prior to completion.

Pursuant to section 71, the assessor shall determine the new base year value for the portion of any taxable real property having been newly constructed. 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, at which time the entire portion of property which is newly constructed shall be reappraised at its full value.

The assessor's failure to assess construction in progress at fair market value on the lien date is contrary to statutory provisions and allows construction in progress to escape assessment, causing a loss in revenue and inaccurate assessments.

Value completed new construction at its fair market value.

In our review of property records, we found several examples where the assessor valued completed new construction using the permit value instead of using one of the three accepted approaches to value when determining the fair market value to be enrolled.

As stated previously, section 71 requires that new construction in progress be appraised at its full value as of the lien date and each lien date thereafter until the date of completion. At such time of completion, the assessor shall reappraise the entire portion of property which is newly constructed at full value.

Typically, the value reported on permits is based on published cost factors derived from a building journal and only reflects average costs throughout various regions in California; the values are not necessarily representative of construction costs in San Francisco City and County. DBI annually develops a cost schedule of building valuation data for use in calculating a building's valuation for building permits. A valuation based on this schedule represents the valuation at the completion of all construction work authorized by a building permit. Permit fees are based on a percentage of this valuation. DBI indicates these valuations are not to be used as accurate guides to the actual cost of construction. Moreover, these estimates cannot account for variations in construction costs resulting from differences in square footage, construction quality, complexity of proposed projects, or revisions to project plans. Thus, the values reported on the permits are not likely to represent fair market value. In order to develop an accurate indicator of value for completed new construction, the assessor must determine its fair market value using the cost, comparative sales, and/or income approaches.

The assessor's current practice is not in compliance with section 71 and may result in inaccurate assessments.

Declines in Value

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

The assessor discovers declines in value primarily through taxpayer requests for an informal assessment review and from assessment appeals. Each year the assessor issues press releases

reminding property owners of her program for conducting informal assessment reviews for possible declines in value.

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

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2010-11	18,492
2009-10	17,629
2008-09	4,437
2007-08	2,735
2006-07	2,718

Taxpayers may request an informal review by completing and submitting a request form that is available on the assessor's website and at the assessor's office public counter. The taxpayer may also email their request for review through the internet. The informal assessment review process is limited to single family dwellings, residential condominiums, townhouses, live/work units, and residential cooperative units. For the 2010-11 roll year, the assessor received a total of 6,462 informal assessment review requests as of the March 31 deadline established by the assessor's office. Although applicants for an informal assessment review are asked to present supporting evidence of a decline in value, such as an independent appraisal or comparable sales, this is not a requirement.

Anyone seeking a reduction in their assessed value after the March 31 deadline must file a formal assessment appeal with the clerk of the board. The appeals filing period for San Francisco City and County is from July 2 through September 15.

In reviewing residential properties for a potential decline-in-value assessment, the assessor relies on the comparable sales approach to value. An estimate of a property's market value as of the lien date is accomplished using the assessor's computer database. Using the computer database, a search is done to find comparable sales that have similar property characteristics, such as size, number of rooms, and location to the property. The computer first searches for comparable sales that are within 10 percent of the property's building area and that sold close to the lien date. If the computer is unable to locate any suitable comparables sales, the search parameters, both area and time, are expanded until three comparable sales are found. Based on these comparable sales, the market value as of the lien date is determined. The data is then forwarded to an appraiser, who can either accept the computer-generated value or override it with their own comparable sales data. The indicated market value is compared to the FBYV and the lower of the two values is enrolled as the property's assessed value.

Property owners are notified of the results of the informal assessment review by an annual value notice. The assessor utilizes three versions of the notice, each entitled *Notice of 20XX – 20XX Assessed Value*. One version of the notice is sent to inform property owners of a change in their assessed value due to one of the following reasons:

(1) The inflationary increase of up to 2 percent allowed under Proposition 13,

(2) Change in ownership,
(3) New construction, or
(4) Restoration of FBYV from the prior year's temporary reduction.

Another version of the notice is sent to inform property owners of a change in their assessed value due to either of the following reasons:
(1) A decline in value as a result of an informal review requested by the property owner, or
(2) A further decline in value from the prior year's temporary reduction.

The final version of the notice is sent to property owners that have requested an informal review, informing them that the review indicated that no change in value was warranted. All three versions of the assessor's notice include the property owner's FBYV, new assessed value, and information about the assessment appeals process, including the appeals filing period and location of the clerk of the assessment appeals board.

Properties in decline-in-value status are assigned a temporary code of "Prop 8," while properties that have requests for an informal review are given a temporary code of "IR." This ensures that decline-in-value status properties are annually reviewed until the indicated market value exceeds FBYV, and properties that have requests for informal reviews are processed. The properties in decline-in-value status are also tracked on a database maintained by the chief appraiser of real property. Once an assessment is identified as being in decline-in-value status, the application of the annual inflationary factor is suspended until the FBYV is restored.

The assessor does not have a program in place to identify declines in value of commercial properties. The assessor only reviews for declines in value of commercial properties where the taxpayer has filed an informal request for review or has filed an assessment appeal. When reviewing income-producing properties, such as office buildings and retail stores, for declines in value, the assessor uses both the comparable sales and income approaches to value whenever possible. The indicated market value is compared to the property's FBYV and the lower of the two values is enrolled as the assessed value for the current roll. The assessor notifies property owners of the results of the review by mail.

Although the assessor has an adequate system in place for reviewing those properties where the property owner requested an informal assessment review, we did note an area in need of improvement for the decline-in-value program.

RECOMMENDATION 9: Develop a comprehensive appraisal program for review of properties that experience a decline in value.

The assessor does not have a proactive decline-in-value program in place to discover or identify properties on the roll that are in excess of current market value. The assessor relies primarily on informal assessment reviews and assessment appeals to discover properties that have declined in value. For example, when a property owner requests an informal review and the assessor determines the property's value has declined below its FBYV, the assessor only reduces the value for that property. The assessor does not review other properties in the same neighborhood for possible declines in value. Although San Francisco does not have many homogeneous single-builder subdivisions, it does have distinct neighborhoods that possess properties of similar

quality and property characteristics, such as size and location. The causes of a decline in value do not affect just certain properties within a neighborhood or community, but may impact all properties within that neighborhood. We reviewed the assessed value of other properties in neighborhoods where the assessor reduced the value of a property due to a request for an informal assessment review. Our review revealed properties that would have also warranted a reduction, but were not reviewed, since the property owner did not file a request for an informal assessment review or an assessment appeal.

Section 2(b) of article XIII A of the California Constitution requires the assessor to recognize declines in value if the current market value of the property on the lien date falls below its FBYV. Section 51(a) requires the assessor, as of the lien date, to enroll the lesser of the property's FBYV or its full cash value, as defined in section 110. Rule 461(d) states that the assessor shall prepare an assessment roll containing the base year value appropriately indexed or the current lien date full value, whichever is less. According to Letter To Assessors No. 92/63, it is the assessor's responsibility to prepare an assessment roll that appropriately reflects both constitutional and statutory provisions. Not only does the assessor have a responsibility to reassess property when a change in ownership or new construction occurs, the assessor also has the responsibility to discover properties where assessments are on the roll in excess of their current market value.

By not actively identifying properties on the roll exceeding current market value, the assessor is not complying with proper statutes and may be enrolling overstated values. In addition, the assessor's practice of enrolling the market value of some properties while enrolling FBYVs for comparable properties represents inequitable taxation. When the assessor discovers that the market value of a property has declined below its FBYV, she should also review the values of comparable properties to ensure none are being overassessed.

Taxable Possessory Interests

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

The assessor enrolled 2,760 taxable possessory interests for the 2010-11 roll year, with a total assessed value of $2,264,391,615. The majority of taxable possessory interests are various private uses at the Port of San Francisco. Other types of taxable possessory interests include private interests at public marinas, convention centers, cable television franchises, redevelopment agency properties, public school concessions, and uses of California Department of Transportation property.

One real property appraiser is responsible for the discovery and assessment of all taxable possessory interests in the city and county. Each year the assessor contacts 36 public agencies in an effort to discover and assess taxable possessory interests. As a primary means of discovering taxable possessory interests, a county-developed letter requesting possessory interest information

is sent to each agency. The assessor requests the agency provide information in accordance with section 480.6. Copies of leases for newly created possessory interests with a stated term of possession are requested. The assessor usually has a 100 percent response rate from the agencies.

Data provided by the reporting agency is typically used in the valuation process if reflective of market; if the data provided for rent does not reflect the market, then economic rent is used. The assessor deducts the appropriate operating expenses from the gross rent to arrive at the net income to be capitalized. The stated term of possession, along with any written options, is used as the reasonably anticipated term of possession. For taxable possessory interests lacking a stated term of possession and for month-to-month taxable possessory interests, the assessor estimates a reasonably anticipated term of possession based on the history and relationship between the public agency and the tenant.

San Francisco City and County has not adopted a low-value ordinance for real property. Therefore, all taxable possessory interest values are enrolled regardless of the amount. Supplemental assessments are issued correctly for changes in ownership with new tenancy.

We reviewed a number of taxable possessory interest records. We found evidence that the real property appraiser was attempting to correct certain recommendations made by the BOE in previous surveys. However, we found several areas of the program still in need of improvement.

RECOMMENDATION 10: Improve the taxable possessory interest program by: (1) discovering and enrolling all taxable possessory interests, (2) documenting and tracking all taxable possessory interest assessments, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) reappraising taxable possessory interests in compliance with section 61, (5) assessing only private uses on publicly-owned real property in accordance with Rule 20, and (6) properly issuing supplemental assessments.

Discover and enroll all taxable possessory interests.

The assessor sends a county-developed letter annually to 36 public agencies. The letter incorrectly limits the request to tenants as of the current lien date. By limiting the request, the assessor may not capture all private parties who use taxable possessory interests throughout the year. We also found instances where the assessor failed to discover taxable possessory interests because alternate means of discovering taxable possessory interests were not employed, such as exploring government agency websites that contain a calendar of events, which could be used to discover tenants for potential taxable possessory interests.

The assessor's practice may result in escaped assessments.

Document and track all taxable possessory interest assessments.

We found that the assessor does not provide sufficient documentation and information in her files to indicate how taxable possessory interests are valued. The majority of the files also do not

indicate the start date, the end date, or the term of the taxable possessory interest. The assessor's computer program allows an appraiser to input lease terms, the reasonably anticipated term of possession, the discount rate, expenses as a percentage of gross income, and remarks. However, these fields for many of the files are left blank. Any remarks made on the computer are not dated, making it difficult to tell when the remark was made or if it relates to the current assessment.

The appraiser who handles the taxable possessory interest assessments attempts to use this program, but it is not utilized to its full potential. The chief appraiser of real property indicated the assessor is in the process of creating a different system to assist with the assessment of taxable possessory interests.

Documentation is a necessary part of standard appraisal practice. It shows the basis for the value conclusion, facilitates review, prevents unnecessary delays in answering any questions that may arise, and reduces any appearance of impropriety. In addition, by not including such documentation as the date of the most recent change in ownership and/or the reasonably anticipated term of possession used by the appraiser, it is impossible to track base years or to know when a taxable possessory interest should be revalued. The assessor should establish a tracking system to flag when a taxable possessory interest's anticipated term expires and, therefore, a reappraisal may be warranted.

By not adequately documenting appraisal records, the assessor's value conclusions, even if correct, may not be fully understood by taxpayers or other appraisers.

Periodically review all taxable possessory interests with stated terms of possession for declines in value.

We reviewed several taxable possessory interests with stated terms of possession. We found that the assessor does not periodically review taxable possessory interests for declines in value. Instead, the assessor enrolls the factored base year value until the contract term of possession expires or there is a change in ownership.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "…the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest

on lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

Reappraise taxable possessory interests in compliance with section 61.

We found several instances where the assessor failed to reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used to value the taxable possessory interest.

Section 61 provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax-exempt real property for any term. Section 61(b)(2) provides that for renewals, the assessor shall, at the end of the initial term of possession used by the assessor, establish a new base year value based upon a new reasonably anticipated term of possession.

By not revaluing taxable possessory interests at the end of the reasonably anticipated term of possession, the assessor is not in compliance with statutory provisions and may cause inaccurate assessments.

Assess only private uses on publicly-owned real property in accordance with Rule 20.

We found that the assessor is currently assessing a taxable possessory interest for a single tenant located on land owned by the California School of Mechanical Arts.

Rule 20(b) defines a taxable possessory interest as a possessory interest in publicly-owned real property. Property owned by the California School of Mechanical Arts is privately-owned and, therefore, the interests of its tenants do not meet the definition of a taxable possessory interest. The assessor's practice of enrolling taxable possessory interests on property owned by the California School of Mechanical Arts resulted in an erroneous assessment of $325,961 for the 2010-11 roll year and similar improper assessments in prior years.

Properly issue supplemental assessments.

We discovered that when a change in ownership occurs, but the tenancy of the taxable possessory interest remains the same, the assessor improperly calculates the supplemental assessment by offsetting the new base year value against the existing roll value. In addition, if the improperly calculated supplemental is within five percent of the existing amount on the assessment roll, no supplemental is issued at all.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction.

According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll when one taxable possessory interest is terminated during an assessment year and a second (but distinct) taxable possessory interest is created involving the same land and improvements during the same assessment year.

The assessor's failure to properly issue supplemental assessments is contrary to BOE guidance and results in a loss of revenue.

Leasehold Improvements

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

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

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

The assessor has formal written procedures for the assessment of leasehold improvements designed to ensure all newly constructed improvements are valued at the appropriate amount and that such improvements are assessed to the proper person. As part of the procedures, the assessor has created a referral log to communicate information concerning leasehold improvements between the real property and business property divisions.

Schedule B of the BPS deals specifically with real property owned or improved by the owner or tenants of premises housing business enterprises. Taxpayers are required to annually list additions, alterations, or deletions of real property improvements by reporting costs detailing changes to land, land improvements, and structures. In this way, taxpayers report costs of additions or alterations as tenant improvements. These changes must, by law, be reviewed and reflected in the property assessment if they qualify as new construction.

Discovery

The assessor's primary discovery tools for leasehold improvements are reviewing BPSs and building permits. Other methods of discovery include field observations, newspaper articles, the Internet, referrals from appraisers, and audits of business records.

When the business property division identifies a leasehold improvement that does not have a clear classification, it is referred to the real property division by way of the referral log to determine whether the leasehold improvement is assessable as new construction or nonassessable because it represents replacement or repair to an existing improvement. The real property division reviews the information for proper assessment and enters the decision on the referral log, so the business property division will know if further action is necessary. This communication between the two divisions shows the assessor's effort to avoid escaped or double assessments.

Valuation

Leasehold improvements are assessed as either structural improvements or business fixtures. If the tenant improvement is assessed as a structural improvement, it is assessed at the lower if its factored base year value or current market value. If the tenant improvement is assessed as a business fixture, it is also assessed at the lower of its factored base year value or current market value; however, because a business fixture is assigned a shorter life than a structure, its market value is normally below the factored base year value. The assessor uses a factoring table that consists of combined data from Assessors' Handbook 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581), and the California Assessors' Association (CAA). Typically, improvements reported by the tenant are assessed to the tenant on the unsecured roll, and improvements installed and paid for by the landlord are assessed to the landlord on the secured roll.

We reviewed several assessments of leasehold improvements enrolled on both the secured and unsecured rolls and found areas in need of improvement.

RECOMMENDATION 11: Improve the leasehold improvement program by: (1) properly valuing structural improvements reported on the BPS, and (2) issuing supplemental assessments for structural leasehold improvements on the unsecured roll.

Properly value structural improvements reported on the BPS.

The assessor applies business equipment depreciation schedules to structural improvements that are reported in column 1 of Schedule B of the BPS.

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

By depreciating structural improvements in a manner similar to business personal property and trade fixtures, the assessor is underassessing structural improvements. In addition, the practice results in inconsistent treatment of similar types of property. This will produce a significant valuation difference between similar improvements assessed on the secured real property parcels versus those assessed on unsecured business property accounts.

Issue supplemental assessments for structural leasehold improvements.

We found that the assessor does not consistently issue supplemental assessments for structural leasehold improvements reported on Schedule B of the BPS. When a taxpayer completes Schedule B and reports the cost of building improvements or leasehold improvements, the business property division completes an analysis of all costs reported on the BPS and enrolls a value. Although the business property division enrolls structural leasehold improvements when they are reported on the BPS, the assessor does not issue supplemental assessments for those improvements.

Section 75.11 provides that supplemental assessments shall be issued following a change in ownership or completed new construction. This provision applies to structural leasehold improvements whether enrolled on the secured or unsecured roll. The assessor's practice of not consistently issuing supplemental assessments for structural leasehold improvements results in lost revenue, as well as unequal treatment of taxpayers.

Timeshares

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

The assessor has identified seven timeshare estate projects and three timeshare use projects in San Francisco City and County, with a total assessed value of $253,884,695 for the 2010-11 roll year.

In a timeshare estate project, the owner has a fee interest in a specific living unit for a specific period of time. The assessor tracks 7,273 interests in the seven timeshare estate projects. Each interest is identified by an individual assessor's parcel number (APN) and the letter "T" between the block and lot number.

In a timeshare use project, the owner has a right to occupy any one of a number of specified types of living units or models that may be available, with no accompanying fee interest in the project. One APN is given to each of the three timeshare use projects. Project management companies are sent one tax bill for the entire project.

The chief of the Standards and Planning Division (chief) is responsible for the valuation of all timeshare parcels. The chief is assisted by a senior assessment clerk, who tracks the ownership, enters information in the computer, and helps gather comparables. The senior assessment clerk does not appraise any properties.

The assessor relies primarily on comparable sales to determine the market value of individual timeshare interests. If timeshare comparables are not available, condominium comparables are sometimes considered. In accordance with Rule 472, sale prices are adjusted for personal property or other non-real property items. There have been very few sales of new timeshares in recent years.

Each year the assessor contacts project management companies for a listing of transfers within each timeshare use project. Once information is received, the assessor tracks and cumulates the transfers on a spreadsheet. If the cumulative interest and value transferred meets the requirements of section 65.1(a), a value of the project is determined and the partial interest transfers are reassessed accordingly.

All timeshare assessments are reviewed annually for declines in value. Many of the existing timeshares are assessed as section 51 properties. Each year the assessor creates parameters for granting a section 51 decline in value and processes the assessments as mass adjustments. Supplemental assessments for reappraisable changes in ownership are correctly processed. We have no recommendations for the assessor's timeshares program.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we review the assessor's audit, business property statement, business equipment valuation, and vessels programs.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer had assessable trade fixtures and business tangible personal property valued at $400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below $400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of $400,000 or more at least once every four years. Instead, the county assessor is required to annually audit 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. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

During the 2010-11 roll year, audit responsibility in San Francisco rested upon 13 full time personal property auditors that are under the direction of two principal personal property auditors.

As noted previously, effective January 1, 2009, 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 amended statute requires the assessor to complete 303 audits per year hereafter. During the 2010-11 roll year, the assessor completed 317 audits.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed-time period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor requests waivers of the statute of limitations from taxpayers when she anticipates an audit will not be completed in a timely manner. We sampled a number of waivers on record and found them to be adequately prepared and well managed.

Audit Quality

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

We sampled several recently completed audits prepared by various personal property auditors and found the audits conducted by the assessor's staff were thorough, well documented, and adequately referenced. We further found that the assessor verifies leased equipment, enrolls construction in progress, and accounts for supplies. Lastly, we reviewed the assessor's application of roll corrections to reflect audit findings. When correcting for audit findings indicating an underassessment, the assessor adequately informs the property owner of their right to an appeal and separately enrolls roll corrections for each year in which the escape assessment took place.

Overall, the assessor's audit program is effectively managed. However, there is one area where we found room for improvement.

RECOMMENDATION 12: Modify the audit production report to better track the pool of largest audit accounts as defined by Rule 192.

We were unable to clearly identify and reconcile audit accounts listed on the 2010-11 audit production report developed and maintained by the principal personal property auditors with audit accounts appearing on a report developed by the Information Systems Division meant to

identify the pool of the largest audit accounts. Part of the confusion relates to numerous incomplete audits carried forward from previous years in accordance with section 469 prior to its amendment. Further contributing to the lack of clarity is the inconsistent formatting between the report developed by the Information Systems Division and the audit production report utilized by the principal personal property auditors.

The assessor cannot be certain that she is in compliance with section 469 and Rule 192 without first identifying and tracking audit production information as it relates to the pool of largest audit accounts. One of the effects of the amendment to section 469 was a fresh start in the assessor's audit production obligation. The difficulty in identifying and tracking audit production could be easily rectified by purging incomplete audits stemming from shortfalls prior to the amendment and developing a report with formatting and sorting protocols consistent with production reports utilized by supervisory audit staff.

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. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

Workload

The following table displays the assessor's workload of secured and unsecured BPSs and assessments for the 2010-11 roll year:

TYPE OF PROPERTY STATEMENTS	TOTAL	SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
General Business	16,041	$869,259,140	$5,828,865,880	$6,698,125,020
Apartments	493	$49,882,880	$3,727,990	$53,610,870
Financial	337	$25,498,340	$231,938,420	$257,436,760
Leased Equipment	259	$102,950	$263,190,010	$263,292,960
Direct Billing	13,872	$23,451,980	$71,721,920	$95,173,900
Totals	31,002	$968,195,290	$6,399,444,220	$7,367,639,510

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. In addition to taxpayer self-reporting and periodic field canvassing, the assessor reviews fictitious business name filings, city and county business licenses, real property appraiser referrals, landlord reports of tenants, business directory services, sales tax permits, and BOE notifications. We found that

the assessor employs comprehensive and effective methods for discovering business personal property.

General Statement Processing

Newly submitted BPSs are first reviewed by an assessment clerk for completeness and the inclusion of an authorized signature. Incomplete BPSs and statements submitted without an authorized signature are copied and returned to the property owner, along with a letter indicating the reason for the rejection of the BPS. Completed BPSs are date stamped and submission dates are entered into the mainframe with the aid of a barcode system. Once screened and sorted, BPSs are batched and assigned to personal property auditors, who then key cost data into the mainframe and calculate a value conclusion. Personal property auditors process all submitted BPSs. The computer system automatically applies a section 463 penalty to all accounts where BPSs were either not submitted or submitted subsequent to the statutory deadline of May 7.

Summary

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, were completed in sufficient detail, and were properly signed.

Our review also included verifying the assessor's procedures for processing late and non-filed BPSs. We found that the assessor applies the late-filing penalty as required by section 463 and habitual non-filers associated with material assessments are flagged for a field review after failing to file a BPS for three consecutive years. Furthermore, the assessor has recently developed and deployed an electronic mode of communication to aid in the coordination of valuation and enrollment of reported leasehold and other real property improvements with the real property division. The assessor's *BPP Referral Log* has built-in controls and allows for feedback between both divisions.

Direct Billing

Many assessors utilize an assessment procedure known as "direct billing" or "direct assessment." Direct billing is a method of assessing qualified business accounts without the annual filing of a BPS. An assessor establishes an initial value for the business property and continues the value for several years. Property statement filing is required periodically. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated launderettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff, thereby increasing the time available for the personal property auditors to perform other required duties.

The assessor maintains a significant direct billing program, with 13,872 accounts during the 2010-11 roll year. The program is well regulated and appropriate controls are in place to reduce

the chance of escape assessments. For example, the assessor requires participating businesses to file a BPS every four years to update taxable equipment information.

We have no recommendations for the assessor's BPS program.

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.

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

We reviewed the assessor's written procedures and standardized valuation policies related to business property valuation and found them to be current and sufficiently detailed.

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581. We reviewed the assessor's valuation tables and a number of processed BPSs. We found the assessor's application of Board-recommended valuation tables to be both consistently and accurately applied.

Classification

For assessment purposes, machinery and equipment costs reported on Schedule A of the BPS may represent personal property, fixtures, or both. A fixture is an item of tangible property that was originally personal property, but is now classified as real property for property tax purposes because it has become physically or constructively annexed to real property with the intent that it remain annexed indefinitely.

RECOMMENDATION 13: Improve the business equipment valuation program by correctly classifying machinery and equipment reported on the BPS.

The assessor allocates all machinery and equipment costs reported on Schedule A of the BPS between personal property and fixtures by using a single fixed proration estimate of 75 percent for fixtures, regardless of the industry being valued.

As stated previously, machinery and equipment costs reported on Schedule A may represent personal property, fixtures, or both. Thus, determining the classification of reported machinery and equipment is an important element of the local assessment function. Principally, classification is important because property tax law requires the assessment roll to show separate values for land, improvements (including fixtures), and personal property. It is also significant because of the assessment differences between real property and personal property. Those

differences include: (1) only real property receives special assessments, (2) real property has a base year value, (3) personal property is appraised annually at market value, and (4) fixtures are a separate appraisal unit when measuring declines in value.

Pre-established proration estimates specific to individual business sectors can be utilized for mass appraisal purposes. For accurate estimations, the assessor could establish percentages based on a physical inspection or adjust previous estimates based upon audit findings. The assessor's current proration practice may lead to inaccurate fixture allocations when applied to diverse business settings, resulting in inaccurate business assessments.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.

San Francisco City and County is a coastal community with an active pleasure boat and commercial fishing industry. For the 2010-11 roll year, the assessor enrolled 1,539 vessels with a total assessed value of $143,009,459.

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. For the purposes of California property taxation, vessels are valued at their fair market value every year as of the January 1 lien date. Sections 401 and 401.3 require the assessor to assess boats at market value each year.

The assessor appraises vessels upon transfer or when newly enrolled in the city and county. She then applies a market derived depreciation rate to vessels with enrolled values less than $100,000 to arrive at current market values for subsequent lien dates. San Francisco City and County has a low-value ordinance exempting personal property on the unsecured roll valued at $4,000 or less. Therefore, vessels with values below the low-value ordinance do not generate a tax bill.

A single personal property auditor is responsible for administering the assessor's vessel program. The assessor values newly enrolled vessels predominately with the aid of online versions of the *BUC Used Boat Price Guide* and the National Automobile Dealers Association *Marine Appraisal Guide* (NADA). However, the assessor utilizes other sources of market evidence when appropriate. The assessor correctly adds a sales tax component of value and makes adjustments for vessel condition, motor type and condition, accessories, and deductions for trailers when information is available. The assessor utilizes all methods of discovery in addition to obtaining marina reports.

Vessel Property Statements

The assessor mails BOE-576-D, *Vessel Property Statement,* to the registered owners of all vessels newly enrolled in the county, as well as those subject to a change in ownership. In addition, BOE 576-D is used to annually solicit information from registered vessel owners who own vessels in the city and county costing $100,000 or more in accordance with section 441.

We sampled a number of assessments where the vessel owner was required to submit a vessel property statement pursuant to section 441(a) and found that when a timely submission was not made, the assessor correctly applied a 10 percent penalty assessment in accordance with section 463.

Vessels Qualifying for the 96 Percent Exemption

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. For vessel owners to qualify for the exemption, they must file BOE-576-E, *Affidavit For 4 Percent Assessment Of Certain Vessels*. If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent (80 percent of the 96 percent exemption). However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

For the 2010-11 roll year, 54 commercial vessels in San Francisco City and County qualified for the 96 percent exemption provided for in section 227. We sampled several partially exempt vessels and found, in most cases, the exemption forms were sufficiently completed and exemptions were appropriately granted when the qualifications stipulated in section 227 were met.

Findings

We reviewed several vessel assessments in detail. Our sampling included vessels subject to the assessor's application of an annual depreciation rate. We found that the assessor has adopted the Board-developed depreciation schedule first released in 2009 and updated in 2010, in accordance with Letter To Assessor No. 2010/004. These depreciation factors are sufficiently detailed and supported by a market study. We found the assessor's vessel valuation program is generally well managed with one exception.

RECOMMENDATION 14: Annually assess vessels at current market value.

We found a number of instances where vessel assessments were not updated annually to reflect current market value. This practice appears particularly prevalent with commercial vessels. The assessor often cites a lack of available market comparables when maintaining historical values. Article XIII, section 1 of the California Constitution states that unless otherwise provided by the constitution or the laws of the United States, all property is taxable and shall be assessed at the same percentage of fair market value. Assessors' Handbook Section 576, *Assessment of Vessels* (AH 576), further states that vessels are valued at their fair market value every year as of the January 1 lien date. This value can be estimated from the sale price or published vessel value guides. For mass appraisal purposes, a value estimate can also originate from the application of sufficiently specific depreciation rates derived from market data. Due to the often rapid fluctuations in vessel market valuations, simply carrying forward historical values will likely result in inaccurate assessments and is contrary to statutory guidelines.

APPENDIXES

A. County-Assessed Properties Division Survey Group

San Francisco City and County

Chief

Dean Kinnee

Survey Program Director:

Mike Harris	Principal Property Appraiser

Survey Team Supervisor:

Ronald Louie	Supervising Property Appraiser

Survey Team Leader:

Ronald Louie	Supervising Property Appraiser

Survey Team:

Ladeena Ford	Business Taxes Specialist II
Tammy Aguiar	Senior Specialist Property Appraiser
Angie Berry	Senior Specialist Property Appraiser
Glenn Danley	Senior Specialist Property Appraiser
Margie Wing	Senior Specialist Property Appraiser
Julie Warren	Associate Property Appraiser
Jeff Arthur	Associate Property Auditor-Appraiser
Dany Lunetta	Associate Governmental Program Analyst

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing[12] activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

The BOE's County-Assessed Properties Division (CAPD) 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.)[13]

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, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

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.

[12] 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.

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

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

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

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

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

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

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

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

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

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

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 CAPD. 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 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 ten 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 ten 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 ten 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 audits in accordance with Revenue and Taxation Code section 469.

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

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

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

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

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

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

The San Francisco City and County Assessor's response begins on the next page. The BOE has no comments on the response.

CARMEN CHU
ASSESSOR-RECORDER

SAN FRANCISCO
OFFICE OF THE ASSESSOR-RECORDER

May 8, 2013

Mr. David J. Gau
Deputy Director
State Board of Equalization
Property and Special Taxes Department
450 N Street, P.O. Box 942879
Sacramento, CA 94279-0064

RECEIVED
MAY 09 2013
County-Assessed Properties Division
State Board of Equalization

Dear Mr. Gau:

Enclosed is our response to the findings and recommendations of the August 2011 San Francisco County Assessment Practices Survey. This response is made pursuant to Section 15645 of the California Government Code.

We would like to express our appreciation for the entire survey team for the professional and courteous manner in which they conducted the assessment practices survey. We appreciate their comments and recommendations and view the survey as an opportunity to improve our processes.

I would also like to acknowledge the staff of the San Francisco Assessor-Recorder's Office for their hard work, professionalism, and commitment to serve the taxpayers of the City and County of San Francisco. Their continued desire to improve operations and increase efficiencies is greatly appreciated.

Sincerely,

Carmen Chu

CARMEN CHU
Assessor-Recorder

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City and County of San Francisco
Office of the Assessor-Recorder

Assessor's Response to State Board of Equalizations
2011 Assessment Practices Survey

RECOMMENDATION 1: Ensure appraisers meet the annual training requirements of section 671.

Assessor's Response

The Assessor agrees on the importance of meeting the annual training requirements of section 671. The Assessor will continue to work with staff to ensure all certified appraisers and auditors are meeting their annual training requirement by completing formal classes, attending appraisal and real estate seminars, and completing self-paced online courses offered by SBE. As of October 2012, only two appraisers had a training hour deficit and both have submitted training plans to SBE.

RECOMMENDATION 2: Improve the assessment appeals program by making consistent representations of sales data to the AAB.

Assessor's Response

The Assessor will provide staff with training to ensure consistent reporting and description of a property's physical condition.

RECOMMENDATION 3: Improve the administration of the church and religious exemptions by: (1) not requiring the claimant to provide a state or federal tax exemption letter in order to qualify for the church exemption, (2) ensuring that only qualifying properties are granted the church exemption, and (3) allowing the church exemption on leased property only if the exempt use occurs on lien date.

Assessor's Response

The Assessor will work to improve the administration of the church and religious exemptions. Per the direction of the SBE, the Assessor will no longer require claimants, who filed for the church and religious exemptions, to provide a state or federal tax exemption letter in order to qualify for the exemption. The Assessor will work to train staff to ensure that only qualifying properties are granted the church exemption and to ensure that church exemptions on leased properties are granted only if the exempt use occurs on the lien date. Additionally, the Assessor

is in process of recruiting permanent and additional staff to ensure consistency and to ensure resources to work towards full compliance.

RECOMMENDATION 4: Improve the administration of the welfare exemption by: (1) pre-printing the maximum income allowed on the low-income housing claim forms, (2) not accepting incomplete and/or improper claim forms filed by claimants, (3) verifying a claimant's continued eligibility for certificates issued by SBE, (4) properly notifying claimants when a portion of the property is denied the welfare exemption, (5) not granting an exemption on property that is not held in the name of the claimant, and (6) not accepting claim forms filed before the lien date.

Assessor's Response

The Assessor is committed to improving the administration of the welfare exemption. While the maximum income allowed on the low-income housing claim forms were not previously pre-printed on the same forms, the Assessor did provide a separate income limit schedule to claimants. At the direction of SBE, the Assessor will move forward with pre-printing the maximum income information directly on the low-income housing claim form. Additionally, the Assessor will work to train staff to ensure that the Assessor is not accepting incomplete and/or improper claim forms, is verifying continued eligibility, notifying claimants when a portion of the property is denied the welfare exemption, not granting an exemption on property not held in the name of the claimant and not accepting claim forms filed before the lien date. The Assessor is in the process of recruiting permanent and additional staff to ensure consistency and to ensure resources to work towards full compliance.

RECOMMENDATION 5: Improve the administration of the disabled veterans' exemption by: (1) applying the provisions of section 276 for disabled veterans' exemption claims that are not filed timely, (2) granting the disabled veterans' exemption on a prorated basis in accordance with sections 276.1 and 276.2, (3) granting the full exemption to the extent of the interest owed pursuant to section 205.5(d), and (4) requiring documentation that the claimant has been honorably discharged.

Assessor's Response

The Assessor will work to train staff to ensure an improvement in the administration of the disabled veterans' exemption. Additionally, the Assessor is in the process of recruiting permanent and additional staff to ensure consistency and to ensure resources to work towards full compliance.

RECOMMENDATION 6: Improve the administration of the exemptions program by: (1) properly applying the late-filing provisions of sections 270 and 271 when applicable, and (2) maintaining complete files on all exemption claims.

Assessor's Response

The Assessor will work toward improving overall the administration of the exemptions program. The Assessor has worked to modify the system to allow for the application of the Sections 270 and 271 late-filing penalties and is currently in compliance with the recommendation. Additionally, the Assessor will work to train staff on maintaining complete files on all exemption claims and is in process of recruiting permanent and additional staff to ensure consistency and to ensure resources to work towards full compliance.

RECOMMENDATION 7: Improve the LEOP program by timely reassessing all properties owned by a legal entity undergoing a change in control or ownership.

Assessor's Response

The Assessor will work to improve the LEOP program. The Assessor has already implemented a procedural change to improve the tracking of a legal entity undergoing a change in control or ownership by requiring staff to note the "DATE PROCESSED" for each item. In addition, the process has also been improved to require staff to periodically reconcile data from the system with the Master tracking document to ensure that all LEOP transactions are properly processed. The Assessor will work on addressing the timely reassessment of these properties with existing staff resources. The change in the existing procedures should improve the LEOP program.

RECOMMENDATION 8: Improve the new construction program by: (1) eliminating the backlog of assessable new construction, (2) expanding appraisal record documentation, (3) enrolling construction in progress at its fair market value for each lien date, and (4) valuing completed new construction at its fair market value.

Assessor's Response

The Assessor will work to improve the new construction program and has already taken steps to address all the recommendations. Beginning in September 2012 the Assessor designated an appraisal crew of 1 Principal Appraiser, 8 appraisers, and 2 assessment clerks to solely valuing new construction. The dedication of resources should create efficiencies in eliminating the backlog in assessable new construction and should ensure consistency in implementing the recommendations on documentation, enrolling construction in progress at its fair market value for each lien date and valuing completed new construction at its fair market value.

RECOMMENDATION 9: Develop a comprehensive appraisal program for review of properties that experience a decline in value.

Assessor's Response

The Assessor will work to refine the current process for reviewing properties that experience a decline in value. San Francisco County is comprised of 88 unique neighborhoods. Characteristics can change from block to block even within the same neighborhoods. Given staffing levels and the existing system, the Assessor will have to review the appropriateness of a mass appraisal approach. RTC Section 51(e) also does not require Assessors to annually value all properties in the county. For example, for the 2009 lien date, the Assessor conducted a County-wide resale analysis which identified neighborhoods in decline (the Sunset, South of Market, and the neighborhoods in the southeast quadrant of the County). Based on this information, the Assessor proactively reviewed over 15,000 parcels in areas identified as in decline and enrolled a lien date value that was lower than the factored base year value where appropriate. Additionally, the Assessor is currently evaluating the use of regression modeling.

RECOMMENDATION 10: Improve the taxable possessory interest program by: (1) discovering and enrolling all taxable possessory interests, (2) documenting and tracking all taxable possessory interest assessments, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) reappraising taxable possessory interests in compliance with section 61, (5) assessing only private uses on publicly-owned real property in accordance with Rule 20, and (6) properly issuing supplemental assessments.

Assessor's Response

The Assessor will work to improve the taxable possessory interest program. Specific to the SBE's findings, the Assessor will modify the Department's request letter by requesting information on intermittent tenants to ensure the discovery and enrollment of all taxable possessory interests. Documenting and tracking all taxable possessory interest assessments is important and the Assessor will work towards improving this aspect, however, the Assessor would note that documentation is not necessarily missing – the system holds data fields on various screens that are not well synchronized. At the same time data may be missing from accounts created prior to 2000. The Assessor will work to train staff to ensure compliance with all of the recommendations under Recommendation 10 and will explore systems improvements to facilitate the possessory interest program and will review the current possessory interest procedures. Regarding assessments on only private uses on publicly-owned real property, the Assessor has cancelled the assessments and issued appropriate refunds

RECOMMENDATION 11: Improve the leasehold improvement program by: (1) property valuing structural improvements reported on the BPS, and (2) issuing supplemental assessments for structural leasehold improvements on the unsecured roll.

Assessor's Response

The Assessor will work to improve the leasehold improvement program. Currently the Tax Collector's billing system in not able to distinguish between unsecured fixtures vs. unsecured structural improvements. The Assessor is working with the Tax Collector as well as making modifications to the Assessor's Property Tax System to allow for structural improvements to be classified as unsecured real property, applying the annual inflation factor, and issuing supplemental tax bills.

RECOMMENDATION 12: Modify the audit production report to better track the pool of largest audit accounts as defined by Rule 192.

Assessor's Response

The Assessor will work to implement the recommendation. The Audit Production Report should be easily traced and reconciled with the auditor's audit assignment for the period. A new format for the 2012-2013 Production Report is now in place to better track the pool of largest audit accounts.

RECOMMENDATION 13: Improve the business equipment valuation program by correctly classifying machinery and equipment reported on the BPS.

Assessor's Response

The allocation of business equipment fixtures should be in accordance to the type of business or industry. A new valuation guide that applies the proper allocation of fixtures for specific type of machinery and equipment has been implemented effective for the 2013 lien date.

RECOMMENDATION 14: Annually assess vessels at current market value.

Assessor's Response

The Assessor concurs and seeks direction from SBE. The Assessor notes the lack of current sales data for commercial vessels in order to implement this item.