

SAN FRANCISCO CITY AND COUNTY ASSESSMENT PRACTICES SURVEY

OCTOBER 2017

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2017/041

October 2, 2017

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 specified counties to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable 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 November through December 2015. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of specified county assessors' offices. 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. The Honorable 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.

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

OBJECTIVE

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

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

SCOPE AND METHODOLOGY

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

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

This survey included an assessment sample of the 2015-16 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and

² Government Code section 15642.

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

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

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

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

We conducted reviews of the following areas:

- Administration

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

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction, or a decline in value, and certain properties subject to special assessment procedures, such as taxable possessory interests, leasehold improvements, and timeshares.

- Assessment of Personal Property and Fixtures

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

⁴ For a detailed description of the scope of the assessment sampling program, please refer to the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>. In addition, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

EXECUTIVE SUMMARY

We examined the assessment practices of the San Francisco City and County Assessor's Office for the 2015-16 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit – the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

In the area of administration, the assessor is effectively managing programs for staffing and assessment appeals. However, we have recommendations for improvements in the workload and the welfare exemptions programs.

In the area of real property assessment, the assessor has effective programs for new construction, declines in value, and timeshare property. However, we have recommendations for improvement in the change in ownership and taxable possessory interests programs.

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

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

The San Francisco City and County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2015-16 assessment roll indicated an average assessment ratio of 98.26 percent, and the sum of the absolute differences from the required assessment level was 2.00 percent. Accordingly, the BOE certifies that San Francisco City and County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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 located within its boundaries. As of 2015, the city and county had a population of 864,816.



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. San Francisco is one of the top tourist destinations in the world, with some of its famous landmarks including the Golden Gate Bridge, cable cars, Chinatown district, and Golden Gate Park.

The San Francisco City and County local assessment roll ranks 7th of the 58 county assessment rolls in California.⁵

⁵ Statistics provided by California State Board of Equalization Annual Report, Table 7 – Assessed Value of County-Assessed Property Subject to General Property Taxes.

FINDINGS AND RECOMMENDATIONS

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

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

RECOMMENDATION 1:	Continue efforts to address the backlog of appraisal work.	7
RECOMMENDATION 2:	Consistently date stamp all exemption claim forms upon receipt.....	9
RECOMMENDATION 3:	Properly notify legal entities of any penalty added in compliance with section 482(f).....	11
RECOMMENDATION 4:	Improve the taxable possessory interests program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (2) reappraising taxable possessory interests upon a change in ownership as required by section 61(b).	12
RECOMMENDATION 5:	Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, (2) consistently notifying taxpayers of their right to appeal the results of an audit as required by Rule 305.3, and (3) enrolling all escape assessments discovered during the course of an audit.	14
RECOMMENDATION 6:	Conduct an audit or a field review when property owners fail to file a BPS for three or more consecutive years.	16

ADMINISTRATION

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.⁶

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.

During our review, we found an area in need of improvement in the assessor's workload program.

RECOMMENDATION 1: Continue efforts to address the backlog of appraisal work.

The San Francisco Assessor's Office experiences high volumes of change in ownership and new construction activities. As of June 30, 2014, the assessor had 4,474 changes in ownership and 7,965 new construction events to be worked. As of June 30, 2015, the assessor had 3,690 changes in ownership and 11,600 new construction activities to be worked. For that 2015 period, the assessor worked over 10,320 changes in ownership and new construction activities. However, due to the resurgence of the real estate market in San Francisco, the volume of new change in ownership and new construction activities outpaced the rate in which the assessor was able to complete those assessments resulting in a greater backlog than the previous period. As of June 30, 2016, the assessor had 2,736 changes in ownership and 13,932 new construction activities to be worked which represents another increase in the backlog.

The assessor has taken active measures to address this backlog of changes in ownership and new construction activities including procuring additional funding to hire additional appraisers and to augment their computer systems.

If the assessor is unable to address the backlog, there is the risk that timely reassessment will not be made, resulting in lost revenue to the county. In addition, delays in making assessments and

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

issuing tax bills related to those assessments may cause an unexpected burden on taxpayers for payment of taxes.

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.⁷

Our review of the assessor's exemptions program focused on the welfare exemption.

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.⁸ 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.

We reviewed several welfare exemption claims and found that most claims had been processed properly. However, we found an area in need of improvement.

⁷ For a detailed description of the scope of our review of the Exemptions topic, please refer to the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf. In addition, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

⁸ Effective July 1, 2017, Assembly Bill 102, the Taxpayer Transparency and Fairness Act of 2017, restructured the BOE into three separate agencies: BOE, California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals. The welfare exemption function of determining an organization's eligibility for an OCC/SCC is part of CDTFA.

RECOMMENDATION 2: Consistently date stamp all exemption claim forms upon receipt.

During our review, we found several welfare exemption claim forms that did not have the date received noted or date-stamped on the claim form. As a result, it was unclear as to whether the claim had been filed timely. 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 determine whether a claim has been filed timely, it is essential that the date received is recorded and the late-postmarked envelopes are retained for those claims. The lack of a date-received stamp or postmarked envelope makes the application of late-filing provisions unsupported.

ASSESSMENT OF REAL PROPERTY

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.⁹

We examined several recorded documents and found that the assessor conducts a proper and thorough review of recorded documents experiencing a change in ownership. In addition, we reviewed several property records involving a recent change in ownership and found that the assessor is following proper valuation procedures.

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.¹⁰ 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 legal entity changes in control under section 64(c)(1) and changes in ownership under

⁹ For a detailed description of the scope of our review of the Change in Ownership topic, please refer to the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. In addition, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

¹⁰ Effective July 1, 2017, Assembly Bill 102, the Taxpayer Transparency and Fairness Act of 2017, restructured the BOE into three separate agencies: BOE, California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals. LEOP is part of CDTFA.

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) requires the county assessor to impose 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. 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.

In San Francisco City and County, the assessor discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, recorded documents, business property statements, and reports from local media.

When the assessor receives the monthly LEOP reports, the chief appraiser of standards reviews the report for the effective date and any changes that have occurred. All parcels within the city and county are identified and reviewed. Once a change in control or ownership of a legal entity has been confirmed and processed for a reappraisable event, an office specialist generates an appraisal worksheet, and the scanned documents are routed to the real property section and assigned to an appraiser for valuation.

Our review of several records showed that the assessor does a thorough job in reviewing LEOP reports and reassessing all property interests identified on the BOE-100-B. The assessor also reviews any additional properties owned by the entity that were not reported on the BOE-100-B. However, we did find an area in need of improvement.

RECOMMENDATION 3: Properly notify legal entities of any penalty added in compliance with section 482(f).

When a legal entity fails to file a BOE-100-B in accordance with the provisions of section 482(b), the assessor properly applies a penalty. However, the assessor does not notify the legal entity of the penalty being applied.

Section 482(f) requires that notice of any penalty added to either the secured or unsecured roll be mailed by the assessor to the transferee. In cases where the legal entity failed to submit a BOE-100-B by the filing deadline, the assessor determined the new base year value and applied the penalty. However, the assessor failed to send a notification of the penalty being applied. The notice should include information about the penalty abatement process. Letter To Assessors (LTA) 2010/028, *Change in Control or Ownership of Legal Entities: Changes to Filing Requirements and Penalty Provisions*, provides guidance on the reporting requirements, application of penalties, and penalty notification requirements relating to change in control and change in ownership of legal entities that own California real property. Additional information regarding penalties and notification requirements can be found in LTA 2010/045, *Changes in Control and Ownership of Legal Entities, Penalty Charts*.

By not providing legal entities with proper notification of an added penalty and information about its right to file a written request to have the penalty abated, the legal entity is not provided an opportunity to request abatement of the penalty.

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.¹¹

San Francisco City and County has 2,427 taxable possessory interests with a total assessed value of \$2,937,034,746. The majority of taxable possessory interests being assessed in San Francisco City and County are various private uses at the Port of San Francisco. Other types of taxable possessory interests include, but are not limited to, private interests at public marinas, convention centers, cable television franchises, public school concessions, public college and university housing, and uses of California Department of Transportation property.

We reviewed the property record files of several taxable possessory interests. The primary method of valuation used by the assessor to value taxable possessory interests was the income approach-direct method. Overall, we found the assessor's taxable possessory interests program to be effective. However, we found areas in need of improvement.

RECOMMENDATION 4: Improve the taxable possessory interests program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (2) reappraising taxable possessory interests upon a change in ownership as required by section 61(b).

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

We reviewed taxable possessory interests with stated terms of possession and found several examples where the assessor did not periodically review these taxable possessory interests for possible declines in value. Instead, the assessor enrolled the factored base year value on the lien date.

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."

¹¹ For a detailed description of the scope of our review of the Taxable Possessory Interests topic, please refer to the BOE's website at http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf. In addition, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

Rule 21(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 upon renewal as required by section 61(b).

We found that the assessor does not consistently reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used by the assessor.

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 establishing a new base year value for the taxable possessory interests at the end of the reasonably anticipated term of possession, the assessor is not in compliance with statutory provisions and may enroll inaccurate assessments.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

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

For San Francisco City and County, the minimum required number of audits to be conducted each year is 303, with the additional requirement that 50 percent of those audits are to be performed on taxpayers selected from a pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.¹³ The assessor has budgeted 13 auditor-appraiser positions.

The assessor completed 281 audits for the 2012-13 fiscal year, 346 audits for the 2013-14 fiscal year, 284 audits for the 2014-15 fiscal year, and 223 for the 2015-16 fiscal year.

We reviewed audits for quality and completeness to ensure that the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. We sampled several recently completed audits and found that in all cases audits were accurate and well documented. Audit quality is further enhanced by a standardized review process where every completed audit is reviewed by management staff, utilizing an audit review checklist to ensure consistency. Overall, the assessor's audit program is thorough. However, we found areas in need of improvement.

RECOMMENDATION 5: Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, (2) consistently notifying taxpayers of their right to appeal the results of an audit as required by Rule 305.3, and (3) enrolling all escape assessments discovered during the course of an audit.

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

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

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

¹³ Refer to Letter To Assessors LTA 2009/049, *Significant Number of Business Property Audits*.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is also an important factor in an effective audit program and ultimately a well-managed assessment program. Assessors' Handbook Section 506, *Property Tax Audits and Audit Program*, provides guidance in developing and improving a property tax audit and the audit program by presenting and discussing statutory provisions, suggested organizational tools, and audit practices and procedures

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

Consistently notify taxpayers of their right to appeal the results of an audit as required by Rule 305.3.

We found that the assessor does not notify taxpayers of their appeal rights in cases where the audit results in an overassessment or no value change, even though the audit discloses property subject to an escape assessment for a year under audit. Upon completion of an audit, the assessor properly informs taxpayers of their audit results in a letter. However, the letter does not include an explanation of the taxpayer's right to appeal the audit results. Only in the case of an audit resulting in an escape assessment is the taxpayer informed of appeal rights by the mailing of the *Notice of Enrollment of Escape Assessment*.

Section 469(c)(1) and Rule 305.3(c) generally provide that the assessor must give the taxpayer the results of an audit in writing. Further implementing section 469, Rule 305.3(d)(2) provides that the taxpayer must be informed of their appeal rights, regardless of whether or not an escape assessment is actually enrolled, if the audit discloses property subject to an escape assessment. In those instances where taxpayers are not advised of their appeal rights in relation to a net overassessment or a "no change" audit finding, they have no knowledge of their entitlement to equalization on the entire property for the year of such escape assessment.

Enroll all escape assessments discovered during the course of an audit.

We found that the assessor does not enroll low-value escape assessments found during an audit. It is the assessor's policy not to enroll escape assessments of \$4,000 or less, even though San Francisco City and County does not have an ordinance in place giving the assessor this authority.

Section 531.9 allows a county board of supervisors to adopt an ordinance to prohibit the assessor from making an escape assessment of an appraisal unit where the assessment would result in an amount of taxes due which is less than the cost of assessing and collecting the tax. While the assessor's practice may be expedient, the assessor does not have the authority to exempt low-value escaped property discovered by audit.

The current unauthorized minimum audit enrollment policy fails to meet the assessor's obligation to assess all property subject to taxation.

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.¹⁴

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

RECOMMENDATION 6: Conduct an audit or a field review when property owners fail to file a BPS for three or more consecutive years.

When a completed BPS is submitted late, the assessor correctly calculates the current market value of reported taxable business property owned, claimed, possessed, controlled, or managed by the person filing the BPS and applies the statutorily-mandated 10 percent penalty. However, in cases where the BPS is not returned, we found that the assessor sets no formal limits on the number of consecutive years a business property owner may fail to file a BPS before the assessor either visits the location of the taxable property or conducts an audit.

Section 441(b) provides that a penalty shall apply if a BPS is not filed by May 7. If an assessee does not file a property statement by May 7, section 501 provides that the assessor shall estimate a value based on available information and, under section 441(b), add a 10 percent penalty to that estimated assessed value. If a BPS was received during the previous year, it is usually reasonable to use that reported cost data as a basis for estimating the current year's value. However, when allowing estimated assessments to continue for several years without any new information, the assessments become increasingly susceptible to error due to possible additions or removals of property that go unreported.

This practice can lead to inaccurate assessments and expiration of the authority to make escape assessments due to the statute of limitations in section 532. Therefore, estimated assessments based on prior years' reporting should be limited to three consecutive roll years.

¹⁴ For a detailed description of the scope of our review of the Business Property Statement Program topic, please refer to the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_general.pdf. In addition, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2015-16 assessment roll:¹⁵

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$94,148,557,217
	Improvements	\$90,574,116,295
	Fixtures	\$1,537,018,691
	Personal Property	\$776,407,348
	Total Secured	\$187,036,099,551
Unsecured Roll	Land	\$763,862,720
	Improvements	\$2,173,226,130
	Fixtures	\$6,239,636,929
	Personal Property	\$3,250,881,560
	Total Unsecured	\$12,427,607,339
Exemptions¹⁶		(\$7,368,330,775)
	Total Assessment Roll	\$192,095,376,115

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:¹⁷

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2015-16	\$192,095,376,000	6.9%	6.0%
2014-15	\$179,736,713,000	5.4%	6.2%
2013-14	\$170,517,890,000	4.5%	4.3%
2012-13	\$163,112,701,000	4.0%	1.4%
2011-12	\$156,861,787,000	0.5%	0.1%

¹⁵ Statistics provided by BOE-822, *Report of Assessed Values by City*, 38 San Francisco, for year 2015.

¹⁶ The value of the Homeowners' Exemption is excluded from the exemptions total.

¹⁷ Roll values and statewide changes are from the California State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from \$15,605,540 in 2011-12 to \$21,288,350 in 2015-16.

As of the date of our survey, the assessor had 148.3 budgeted permanent positions. These positions consisted of the assessor, 8 managers, 64 appraisers, 12.8 auditor-appraisers, 2 cadastral draftspersons, 5 computer programmers/analysts, 17 technical/professionals, and 38.5 support staff.¹⁸

The following table shows the assessor's total gross budget and staffing over recent years:¹⁹

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2015-16	\$21,288,350	3.7%	148.3
2014-15	\$20,536,644	22.9%	137.6
2013-14	\$16,704,829	0.4%	124.7
2012-13	\$16,632,389	6.6%	125.5
2011-12	\$15,605,540	10.2%	120.0

Table 4: Assessment Appeals

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

YEAR	ASSESSMENT APPEALS FILED
2015-16	1,602
2014-15	2,740
2013-14	5,051
2012-13	5,685
2011-12	6,278

¹⁸ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

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

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

Table 5: Exemptions – Welfare

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

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2015-16	1,414	\$6,195,217,613
2014-15	1,436	\$6,104,981,212
2013-14	1,371	\$5,845,130,542
2012-13	1,384	\$5,693,703,130
2011-12	1,326	\$5,211,744,043

Table 6: Change in Ownership

The following table shows the total number of reappraisals due to changes in ownership processed in recent years:²²

YEAR	REAPPRAISABLE TRANSFERS
2015-16	10,127
2014-15	5,846
2013-14	7,605
2012-13	9,416
2011-12	8,593

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

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

Table 7: New Construction

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

YEAR	NEW CONSTRUCTION ASSESSMENTS
2015-16	2,986
2014-15	1,725
2013-14	1,981
2012-13	2,135
2011-12	2,655

Table 8: Declines In Value

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

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2015-16	6,884
2014-15	11,226
2013-14	19,295
2012-13	18,361
2011-12	21,248

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

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

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

San Francisco City and County

Chief

David Yeung

Survey Program Director:

Diane Yasui

Manager, Property Tax

Survey Team Supervisor:

Andrew Austin

Supervisor, Property Tax

Survey Team Leader:

Robert Marr

Associate Property Appraiser

Survey Team:

Cheron Burns

Associate Property Appraiser

Debra Wilson

Associate Property Appraiser

Jorge Torres

Assistant Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Cyrus Haze Ghazam

Associate Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The 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.



September 1, 2017

Dean Kinnee
Deputy Director, Property Tax Department
State Board of Equalization
Property Tax Department
450 N Street
Sacramento, CA 94279-0064

Dear Mr. Kinnee:

On behalf of the San Francisco Office of the Assessor-Recorder, I extend our appreciation for the professionalism and work of the State Board of Equalization's (BOE) survey team. Pursuant to Section 15645 of the California Government Code, I have attached our response to the findings and recommendations of the 2015 Assessment Practices Survey. Property taxes represent a significant source of revenue for local services and for the State's public education programs and I look forward to working with the BOE in the coming years to strengthen our State's property tax system in the public's interest.

The 2015 Assessment Practices Survey reflects the steady and dramatic progress made by the dedicated staff of the San Francisco Assessor-Recorder. Over the last few years, our office has charted a path towards professional excellence by focusing our investments on staffing, technology, transparency and partnerships. These investments have proven invaluable and as a result, we have made significant progress in the timeliness of assessments and improving our work. Compared to the previous year, San Francisco's 2017 assessment roll grew by 10.7% or \$22 billion, a remarkable increase for a seven-mile by seven-mile City! Fueled by a strong real estate market, rapid new construction, and our office's ability to capture these assessments more quickly, San Francisco's assessment roll growth is the highest rate of growth in California. This translates to roughly \$260 million in increased revenues for critical public services. In the area of transfer tax, our office saw the highest levels of transfer tax collections in San Francisco's history at \$411 million.

Focus on Staffing

A critical component of our success is centered on staffing. In the last cycle, San Francisco was granted \$1.29 million over three years to hire additional staff through a pilot program established by the State legislature called the State-County Assessor's Partnership Agreement Program (SCAPAP). San Francisco directed these resources to hiring appraisers to keep pace with new construction valuations and to improve our internal processes for tracking in-progress lien date new construction activity. Through that investment and improved processes, our office added \$4.96 billion in assessed value to the 2017 roll for completed and in-progress construction alone!

Hand-in-hand with an investment in staffing is the need to encourage professional development, training and the recruitment and retention of talent. We strengthened our administrative backbone and were proud to launch a new appraiser trainee program which provides a professional pathway for individuals interested in a career in appraising real property. In our inaugural program, over 300 applicants applied for six trainee positions. All six trainees have completed the combination of classroom and supervised on-the-job training, passed the State BOE certification process and now have gained the skills needed to compete for permanent appraiser positions within the office.

Technology to Work Smarter

A challenge many jurisdictions face is an aging technology infrastructure that limits the ability to provide efficient and seamless taxpayer service. Since 2013, our office has keyed in on deploying technology that both improves the taxpayer experience and improves our internal functions. Several years ago, our office implemented online filing for business personal property statements. Now, close to 62% of filers submit statements using the online portal which is a convenience for taxpayers and saves our staff time by reducing the manual entry of data. To better track transactions, our Recorder division launched an online portal to accept public documents. Approximately 120,000 documents are submitted annually online and recorded the same day. A subset of these documents is then automatically routed to our assessor operations to review whether the transaction triggers a reassessment.

This year, for our Real Property and Transactions divisions, we successfully implemented a new Assessor Information Management System (AIMS), which serves as a flexible and consolidated search system for all our real property and change-in-ownership documents. Much like a “Google search” for property documents, our office created a new platform to manage documents, developed new protocols and procedures for our business and consolidated disparate files on shared drives and paper formats into the single system. Already 2.6 million images have been uploaded, preserved and coded in AIMS for quick and easy retrieval.

Finally, our office is mindful of the importance of securing our existing systems and data now and for the future. In 2016 we completed a significant effort to relocate our existing servers and technology infrastructure to secure data facility centers and implemented protocols to replicate our data to ensure continuity of operations. On our horizon are efforts to secure the County’s property tax assessment systems under a more resilient and supported technology platform to achieve more efficient operations, reduced revenue at risk, better customer service, and greater transparency and reporting.

Role of Data and Partnerships

An area that has benefited the most from the use of data and strong partnerships is the timeliness of assessments. In 2013, when I first joined the office, we faced a significant backlog carried forward from past years. The Great Recession exacerbated this challenge as assessment appeals cases skyrocketed by four-fold. By 2013, our office also faced mounting work driven by an improving economy. Many on-hold projects began construction as financing loosened resulting in an increase in new construction workload. At the same time, the return of a strong real estate market meant many more change-in-ownership transactions to value. Fortunately, the

combination of our investment in a strong analytics team and the concerted efforts of our appraisal and clerical staff, equipped with better data, an understanding of our workload, assignments and production has resulted in tangible improvements on reducing the time to assessment. Even with the substantial number of new cases added given the heightened market activity, our office has made considerable strides in the timeliness of assessments. Now, our caseload is roughly nine months behind timely assessment compared to over three years behind in 2013-2014! For single-family homes and condos, time to enrollment is generally processed even more quickly.

The use of data has also allowed us to develop tools to perform more efficiently. With coordination between our Real Property and Transactions divisions, our office takes real-time market data to feed our real estate regression tool. The regression tool analyzes available market data on recent transactions relevant to an event date and creates a statistically significant range of likely market values given a property's characteristics and location. The tool allows the office to more quickly confirm whether a property's sales price is within the expected range of market value given other sales in the marketplace. Currently we use this tool for single-family home and condominium sales in San Francisco. In the coming year, we plan to explore whether additional property types could benefit from a regression analysis.

The improvement we see in the assessment ratio, from 97.59 (sample from 2010-2011 assessment roll) to 98.26 (sample from 2015-2016 assessment roll), is in line with the steady progress we have made in more timely assessments. The assessment ratio reflects value differences at a snapshot in time. Consequently, the ratio captures both real differences in value for worked cases and it captures differences that result when the record has not been updated for a case that is pending reassessment. When the value being used for comparison is the value on record from the previous owner's transaction, we expect a gap in value which negatively impacts the calculation of an assessment ratio. Fortunately, compared to the time when the sample was pulled for this report, we have continued to close the timeliness gap and expect to see further improvement in our assessment ratio beyond that of the current report's ratio.

We have also strengthened access to important data by working with partner organizations. Our collaboration with the Assessment Appeals Board, Controller and Tax-Collector, for example, has improved beginning-to-end services for taxpayers undergoing assessment appeals by shortening the time for administrative processing. By the last fiscal year-end, our pending assessment appeals cases were down to 996 compared to 7,421 a few years ago in 2013! Our coordination of business registration data, including registration for short-term rental businesses with the Tax-Collector's Office has allowed for seamless account discovery for personal property filings. As a result, in 2016, San Francisco with the BOE, lead the way in creating fair processes for the regulation of business personal property for short-term rentals in California.

Transparency for Consumers

To end, I would like to highlight our focus on customer service and transparency. Property tax laws are complex and we aim to provide the tools and resources for taxpayers to know their rights. Recently, we revamped our entire website to better serve the public. The new website was reconfigured from the user's perspective and is designed to be more accessible and

searchable. It can be viewed on desktop or mobile devices, features easy-to-find information in Chinese, Spanish and Tagalog and is directly linked to the California Assessors Associations forms for consistency and accuracy. Last year, we completed ten new factsheets on commonly topics such as “Property Tax 101 for New Homeowners,” “Property Tax Savings for Seniors,” and “Change Due to New Construction”. And for the first time, our office has made available a ten-year history of San Francisco’s non-confidential property data online. The data is simple to download, easy to understand and free for the public.

I thank my team for their tireless work in driving these accomplishments. As you will find in our attached responses, we have already begun addressing the items identified by the survey team and we look forward to working with the BOE on improving our processes.

Sincerely,

A handwritten signature in black ink that reads "Carmen Chu". The signature is written in a cursive, flowing style.

Carmen Chu
Assessor-Recorder
City and County of San Francisco



Attachment 1: Assessor's Response to BOE 2015 Survey Recommendations

RECOMMENDATION 1: Continue efforts to address the backlog of appraisal work.

RESPONSE: The Assessor agrees with this recommendation and is actively making progress towards improving the timeliness of assessments and prioritizing the work of older items in the workload. When we closed the 2014 roll, a substantial number of pending cases were from events that occurred over three years ago. We hired additional temporary appraisers dedicated to addressing outstanding assessment appeals, thus allowing existing appraisers to focus their efforts on the workload. As the appeals team successfully reduced the number of open appeals, we transitioned these appraisers into permanent positions and reassigned them to production on change-in-ownership and new construction cases. In addition, we developed tools, like regression modeling to assist in confirming market value and have analyzed our data to inform, prioritize and better track our work. Although the office has seen a rise in new cases driven by a strong real estate and construction market, we have made quick progress in improving the timeliness of assessments. At the close of the 2017 roll, our caseload is approximately nine months behind timely assessment versus over three years for the 2014 roll! In Fiscal Year 2017-18 we plan to hire additional appraisers to further our efforts to improve timeliness and productivity. We also plan to explore using improved regression analysis to expand the types of properties eligible for our Direct Enrollment Program.

RECOMMENDATION 2: Consistently date stamp all exemption claim forms upon receipt.

RESPONSE: The Assessor agrees with this recommendation and in July 2016, implemented a new procedure to date stamp and review for compliance all exemptions claim forms upon receipt. Because we consistently date stamp all exemptions claim forms, we can accurately apply late-filing provisions per sections 270 and 271.

RECOMMENDATION 3: Properly notify legal entities of any penalty added in compliance with Section 482(f).

RESPONSE: The Assessor agrees with this recommendation and has already implemented changes to address this item. In Fiscal Year 2016-17, San Francisco worked through its backlog of unprocessed Legal Entity Ownership Program (LEOP) events, including sending late filer penalty notification to 45 entities affecting 239 Assessor Parcel Numbers (APNs). Ongoing, San Francisco has modified its procedures to initiate late filer penalty notification letters upon receipt of the monthly BOE-100 transmittals from the Board of Equalization (BOE) or the equivalent information from the California Department of Taxes and Fee Administration (CDTFA).

RECOMMENDATION 4: Improve the taxable possessory interests program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (2) reappraising taxable possessory interests upon change in ownership as required by section 61(b).

RESPONSE: The Assessor agrees with this recommendation and has already designated both a Principal and a Senior Appraiser to improve the possessory interest program. (1) The Assessor is developing an outreach program to enlist better cooperation from public agencies that are required to report taxable possessory interests to the Assessor. As a part of this effort, we are streamlining the process for public agencies to provide our office with updated rent rolls annually so that they can be reviewed for declines-in-value due to declining terms. (2) Similarly, we are improving the process by which public agencies notify us when a change in ownership occurs, provide us with copies of new leases, as well as provide accurate rent rolls with identifying lease numbers as of January 1st of each year. We have also enhanced our internal processes by working with our Transactions and Recorder divisions to identify leases signed and recorded on government owned properties. As a result, we can accurately identify and reappraise possessory interests upon change in ownership.

RECOMMENDATION 5: Improve the audit program by: (1) performing the minimum number of audits of professions, trades, and businesses pursuant to section 469, (2) consistently notifying taxpayers of their right to appeal the results of an audit by Rule 305.3 and (3) enrolling all escape assessments discovered during an audit.

RESPONSE: The Assessor agrees with these recommendations and have made progress in addressing these concerns. (1) We have hired appropriate resources to improve our audit production. In 2017, we completed 98% of required annual audits, pursuant to section 469 and we have a plan in place to complete all mandatory audits going forward. (2) We have updated our procedures and related letters to notify taxpayers of their appeal rights when discovered escaped property value is included in net overassessment or no value change audit findings. (3) We believed that escape assessments under \$4,000 were already covered by San Francisco's existing low value ordinance for business personal property and we plan to draft and submit an ordinance to the Board of Supervisors this fiscal year to clarify that escape assessments up \$4,000 are also exempt.

RECOMMENDATION 6: Conduct an audit or field review when property owners fail to file a BPS for 3 or more consecutive years.

RESPONSE: The Assessor agrees with this recommendation and have taken steps to address this item. During the 2017 statement processing season, our office implemented new procedures to ensure all penal accounts over \$200,000 are assessed at current year market value. Due to limited resources, assessed values less than \$200,000 (i.e., direct bill penalties) were carried over at the prior year's enrolled value. Going forward, we have updated our processes so that accounts of taxpayers who have not filed in three consecutive years are considered for site visits or considered for inclusion in our required annual audits.