

# SAN LUIS OBISPO COUNTY ASSESSMENT PRACTICES SURVEY

**DECEMBER 2004**

CALIFORNIA STATE BOARD OF EQUALIZATION

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December 30, 2004

TO COUNTY ASSESSORS:

No. 2004/079

SAN LUIS OBISPO COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the San Luis Obispo 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 Tom J. Bordonaro, Jr., San Luis Obispo County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the San Luis Obispo County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division during September and October 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Bordonaro 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:jm  
Enclosure

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## **INTRODUCTION**

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the San Luis Obispo County 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 Tom J. Bordonaro, San Luis Obispo County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the 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<sup>1</sup> section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by rule 371.<sup>2</sup>

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas. An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

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<sup>1</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

<sup>2</sup> 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. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our prior San Luis Obispo County Assessment Practices Survey, we made 18 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented 11 of the recommended changes; 6 of the recommendations have not been implemented and are repeated in this survey; and 1 of the prior recommendations, although a good practice, was determined to be discretionary and is not repeated.

We found significant improvements in the assessor's office since our last assessment practices survey. Purchases of information technology hardware and software and improvements in efficiency have greatly improved productivity and the assessor's interface with other county departments.

- Administrative elements of the assessor's office, including the exemption program, assessment roll changes, and assessment appeals, conform to statutory requirements.
- The assessor's programs for assessing new construction, supplemental assessments, historical properties, leasehold improvements, timeshares, water company properties, and pipeline rights-of-way are consistent with the requirements of property tax law.
- The assessor has effective business property statement, leased equipment, and vessel programs. In addition, the assessor's racehorse return processing program meets statutory requirements.

We provide recommendations to address the issues summarized below in the current survey.

- The assessor displays the incorrect versions of some BOE-prescribed forms on his Web site.
- The assessor fails to file quarterly base year value transfer reports with the BOE as required by section 69.5(b)(7).
- The assessor's form for a decline-in-value review still appears to require that property owners supply comparable sales information, despite the recommendation against that practice in the prior survey.
- With regard to California Land Conservation Act property, the assessor does not classify underground irrigation systems as improvements pursuant to rule 124.
- The assessor has not implemented BOE guidelines in the assessment of taxable government-owned property.
- The assessor does not use the contract term when determining the current market value for possessory interests as required by rule 21.
- Regarding petroleum properties, the assessor still does not account for abandonment expenses over the economic life of the property and underestimates the value of the property because of a procedural error in using the valuation program.

- The assessor still does not follow statutory requirements when enrolling escape assessments and reducing overassessments.
- The assessor continues to use unsupported minimum percent good factors in valuing machinery and equipment contrary to section 401.16.
- The assessor continues to erroneously classify manufactured homes as real property and fails to enroll manufactured homes annually at the lesser of the factored base year value or the current market value. In addition, the assessor erroneously requires manufactured homeowners to file another statement in addition to the homeowners' exemption claim to obtain the homeowners' exemption.

Despite the problems noted above, we found that most properties and property types are assessed correctly. We found no significant assessment problems as defined in rule 371. Accordingly, pursuant to section 75.60, San Luis Obispo County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

<b>RECOMMENDATION 1:</b>	Ensure that the correct versions of BOE-prescribed forms are displayed on the assessor's Web site.....	11
<b>RECOMMENDATION 2:</b>	File quarterly reports with the BOE as required by section 69.5(b)(7).....	19
<b>RECOMMENDATION 3:</b>	Revise the <i>Application for Decline-In-Value Reassessment</i> form to clearly indicate that the comparable sales data is optional. ....	22
<b>RECOMMENDATION 4:</b>	Properly classify underground irrigation systems as improvements pursuant to rule 124. ....	24
<b>RECOMMENDATION 5:</b>	Follow the guidelines of Letter To Assessors 2000/037 in the assessment of taxable government-owned properties.....	24
<b>RECOMMENDATION 6:</b>	Value taxable possessory interests according to rule 21. ....	25
<b>RECOMMENDATION 7:</b>	Revise petroleum property valuation procedures by: (1) accounting for abandonment expenses at the end of the economic life of the property and (2) correctly applying a petroleum valuation computer program to ensure accurate lien date values. ....	30
<b>RECOMMENDATION 8:</b>	Process overassessments and underassessments resulting from a multiple-year audit according to section 533.....	33
<b>RECOMMENDATION 9:</b>	Use Assessors' Handbook Section 581, <i>Equipment Index and Percent Good Factors</i> , as intended. ....	34

**RECOMMENDATION 10:** Modify manufactured home assessment procedures by:  
(1) enrolling manufactured homes as personal property,  
(2) assessing manufactured homes at the lesser of the factored base year value or the current market value, and (3) requiring only a completed homeowners' exemption claim to apply for the homeowners' exemption as provided in section 253.5. ....38

## RESULTS OF 2001 SURVEY

### ***Disaster Relief***

We recommended that the assessor request the board of supervisors to revise the county's disaster relief ordinance to reflect the correct lien date. The assessor has complied with this recommendation and the new ordinance reflects the correct lien date.

### ***Assessment Roll Changes***

We recommended that the assessor include the notation required by section 531.8 when providing taxpayers with the notice of proposed escape assessments. The assessor implemented this recommendation.

### ***Declines in Value***

We recommended that the assessor delete from the *Decline-in-Value Application* the requirement that property owners supply comparable sales information when requesting a decline-in-value review. Although the assessor made changes to the form, it still appears to require the taxpayer to supply comparable sales information in filing the *Decline-in-Value Application*. We repeat the recommendation that the assessor clearly indicate that the comparable sales data is optional.

### ***California Land Conservation Act Properties (CLCA)***

We recommended that the assessor revise the wording pertaining to compatible use income on the *Williamson Act Property Agricultural Data Record* used to request information from taxpayers. The assessor implemented the recommendation and it now includes a request for all potential compatible use income.

### ***Possessory Interests***

We recommended that the assessor assess all taxable possessory interests at county fairground facilities. The San Luis Obispo County Board of Supervisors has passed a low-value ordinance that negates these low-value taxable possessory interests.

### ***Taxable Government-Owned Properties***

We recommended that the assessor refrain from assessing agricultural possessory interests on taxable government-owned properties. The assessor has implemented this recommendation.

### ***Mineral Properties***

#### **Petroleum Properties**

We recommended that the assessor: (1) correct the programming error in the petroleum production scheduling software, (2) assess only proved reserves, (3) recognize the condition of well improvements for petroleum properties, and (4) match abandonment expenses to the life of the property. The assessor has implemented the first three recommendations. However, the

assessor still does not account for abandonment expenses over the economic life of the property, and we repeat it in this report.

### **Mining Properties**

We recommended that the assessor include working capital in the cash flow of mineral property appraisals. The assessor has corrected this and now includes a charge in the cash flow for the interest on working capital, which is one method of treating working capital described in Assessors' Handbook Section 560, *Assessment of Mining Properties*.

### **Business Property Assessment**

We recommended that the assessor refrain from employing minimum percent good factors, and that he use the BOE's recommended valuation factors when assessing computers. While the assessor continues to employ minimum percent good factors in business property assessment, he now uses the correct factors when assessing computers.

### **Audit Program**

We recommended that the assessor follow statutory requirements when enrolling escape assessments and reducing overassessments. The assessor continues the improper practice of netting escapes and overassessments and we repeat this recommendation.

### **Manufactured Homes**

We recommended that the assessor: (1) classify manufactured homes as personal property, (2) use recognized value guides, (3) conduct annual reviews for declines in value, and (4) mail a *Change of Ownership Statement* when the *Information Request for Manufactured Housing* is not returned. The assessor now uses the *N.A.D.A. Manufacturing Housing Appraisal Guide* to value manufactured homes. Although section 480(a) requires that the transferee of any manufactured home file a signed *Change of Ownership Statement* whenever there is a change in ownership, there is no provision that requires the assessor to mail the form. Therefore, we found that the assessor's practices do not conflict with existing statutes or appraisal practices and do not repeat this recommendation. The assessor has not implemented the first and third recommendations and we repeat those.

## OVERVIEW OF SAN LUIS OBISPO COUNTY

San Luis Obispo County is situated about half way between San Francisco and Los Angeles counties on the California Central Coast - south of Monterey County, west of Kern County, and north of Santa Barbara County. The inland portion of the county is dominated by ranches, farms, and vineyards. One of the more noted landmarks is Hearst Castle.

The following table displays information pertinent to the local 2003-04 assessment roll:

PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
<b><u>Secured Roll</u></b>		
Residential	107,677	
Commercial/Industrial	7,940	
Agricultural	11,577	
Other Secured	9,802	
Total Secured	136,996	\$24,259,768,985
<b><u>Unsecured Roll</u></b>		
Personal Property & Fixtures	34,563	\$844,598,177
<b>Total Assessment Roll</b>	171,559	\$25,104,367,162

The next table illustrates the growth in assessed values during the past five years:<sup>3</sup>

ROLL YEAR	TOTAL ROLL VALUE	INCREASE
2003-04	\$27,725,132,000	8.2%
2002-03	\$25,612,531,000	8.9%
2001-02	\$23,514,786,000	6.4%
2000-01	\$22,098,345,000	6.0%
1999-00	\$20,843,838,000	

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<sup>3</sup> Total roll value includes State-assessed property.

## 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. Topics addressed include the assessor's budget and staffing, appraiser certification, the State-County Property Tax Administration Program (PTAP), assessment forms, exemptions, disaster relief, assessment roll changes, assessment appeals, and the racehorse administrative tax.

### ***Budget and Staffing***

The assessor's staffing levels have remained relatively constant over the last five years, with only slight variations:

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE
2003-04	\$6,642,164	9.4%
2002-03	\$6,069,069	8.7%
2001-02	\$5,583,509	7.9%
2000-01	\$5,173,433	10.5%
1999-00	\$4,681,167	

For the 2002-03 budget year, 82 percent of the assessors' budget is funded by the county's general fund, 6 percent by other revenues, and 12 percent by PTAP funds, which provide \$736,288 annually. During the same period of time, the staff size increased from 85.5 to 87 positions. Of the 87 current positions, 15 are funded by PTAP.

The assessor's office currently consists of the assessor, a chief of standards with a staff of 48, and a chief appraiser with a staff of 36. The chief of standards is responsible for technology, mapping, transfers, exemptions, roll administration, standards, and office support. The chief appraiser is responsible for appraisals and assessment appeals.

### ***Appraiser Certification***

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. The appraisal staff consists of 37 appraisers. Fifteen of the appraisal staff and all three supervisors have attained advanced appraiser certification. We found that the assessor and his staff possess the required certificates.

Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

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

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

tax administration. This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

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

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

In Resolution No. 95-465, dated November 21, 1995, San Luis Obispo County elected to participate in PTAP. On February 6, 1996, the County of San Luis Obispo and the State Department of Finance entered into an agreement for a PTAP loan of \$736,288 for each year. A second contract dated February 2, 1999, provided a loan in the same amount for fiscal years 2000-01 and 2001-02. On February 19, 2002, the County of San Luis Obispo again renewed its contract with the State Department of Finance.

The assessor used PTAP funds to reduce backlogs of building permits, changes in ownership, assessment appeals, and decline-in-value assessments. Funds have also been used for staffing and new information technology hardware, software, and related staff training. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax assessment system.

The assessor's required base funding and staffing levels are \$3,083,704 and 69 positions, respectively. The San Luis Obispo County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every year under contract.

### **Assessment Forms**

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.<sup>4</sup> The BOE currently prescribes 78 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists to the BOE by October 15 in the case of property statements and miscellaneous forms and by

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<sup>4</sup> Also sections 480(b), 480.2(b), 480.4, and rules 101 and 171.

December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

On the *Checklist of Board-Prescribed Exemption Claim Forms*, the assessor identified four forms (BOE-236, BOE-236-A, BOE-260-B, and BOE-576-E) that he would not use. However, according to forms submitted for the survey and the forms available on the San Luis Obispo Assessor's Web site, he is using them.

The assessor uses numerous locally developed forms, approximately 32 BOE-prescribed forms, and a number of informational brochures which are also available on his Web site.

**RECOMMENDATION 1:** Ensure that the correct versions of BOE-prescribed forms are displayed on the assessor's Web site.

We found a number of problems with the forms available on the assessor's Web site:

- BOE-266-CD, *Claim for Homeowners' Property Tax Exemption*, is not the current version (Rev. 4, dated 8-00 instead of Rev. 5, dated 8-02),
- BOE-502-A, *Preliminary Change of Ownership Report*, is available at two different locations on the site. One was under *Assessment Forms* and the other under *Transfer Forms*. The form listed under *Assessment Forms* is an older version of the form (Rev. 4, dated 8-02 instead of Rev. 5, dated 8-03). The form listed under *Transfer Forms* was not corrected for discrepancies brought to the assessor's attention by the BOE during the form review process in April 2003, and
- The form portion of the BOE-571-J, *Annual Racehorse Tax Return*, does not include the instructions to the form.

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.<sup>5</sup> BOE-prescribed forms are updated on an annual basis, and a checklist of current forms is sent to assessors. Outdated BOE-prescribed forms should not be used, as they could provide incorrect information or be misleading to the taxpayer.

## **Exemptions**

### **Church and Religious Exemptions**

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, 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 also is exempt, under article XIII, section 4(d), 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.

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<sup>5</sup> Also Revenue and Taxation Code sections 480(b), 480.2(b), 480.4 and California Code of Regulations (property tax rules) sections 101 and 171.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors, not the BOE, administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The following table illustrates religious and church exemption data for the 1999-00 through 2003-04 assessment rolls:

ROLL YEAR	RELIGIOUS		CHURCH	
	Number	Exemption Value	Number	Exemption Value
2003-04	239	\$93,098,278	20	\$4,749,345
2002-03	241	\$94,498,960	21	\$2,376,172
2001-02	248	\$87,045,939	24	\$3,539,279
2000-01	245	\$74,191,491	21	\$2,517,833
1999-00	236	\$76,923,281	20	\$2,666,577

In San Luis Obispo County, first-time claimants for the religious exemption are required to file Form BOE-267-S, *Religious Exemption Claim*. Once established, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice* to all claimants. If a claimant fails to return BOE-267-SNT, the claimant is contacted by telephone to allow the assessor either to re-establish the religious exemption or to adjust the exemption as necessary. If the assessor is unable to contact the claimant by telephone, an onsite inspection is conducted to verify exempt activity. We found the assessor's religious exemption program to be well documented and properly administered.

Sections 255 and 256 require claimants for the church exemption to file an annual claim. All claimants reviewed had an annual claim form on file. We found the assessor's church exemption program to be well documented and properly administered.

### Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. 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. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is

eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became 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 *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table shows welfare exemption data taken from the 1999-00 through 2003-04 assessment rolls:

ASSESSMENT ROLL	WELFARE	
	Number of Claims	Exemption Value
2003-04	654	\$186,954,432
2002-03	727	\$182,364,589
2001-02	672	\$167,714,332
2000-01	683	\$150,893,070
1999-00	627	\$142,742,235

We reviewed a sample of welfare claims on-file at the assessor's office and found no problems with the assessor's exemption program.

**Disaster Relief**

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

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

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

The assessor discovers calamities through building permits issued for repairs, newspaper articles, taxpayer notification, and field investigation. The assessor processes an average of 53 disaster-relief claims a year. We reviewed the records of seven properties that had been damaged by fire. We found that the assessor noted the disaster on the property records and lowered the assessed

values of these properties when appropriate. The assessor handled each case properly and processed mid-year tax relief for the property owners.

The following table shows disaster relief claims for the most recent assessment rolls:

ASSESSMENT ROLL	DISASTER RELIEF CLAIMS
2003-04	50
2002-03	49
2001-02	57
2000-01	51
1999-00	59

We found no problems with the assessor's disaster relief program.

**Assessment Roll Changes**

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, the roll may not be changed except as authorized by statute. 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.

Either an appraiser or auditor-appraiser may initiate roll changes. We reviewed and traced several roll changes and noted that they were correctly and timely processed. The assessor's office processed 1,880 roll corrections during fiscal year ending June 30, 2003.

In our prior survey, we recommended that the assessor add the notation "Notice of Escape Assessment" to the top of the form as required by section 531.8. The assessor implemented our recommendation and added the required notation at the top of the form.

**Assessment Appeals**

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 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 BOE has adopted rules 301 through 326 to regulate the assessment appeal process.

San Luis Obispo County Ordinance No. 1125 established the assessment appeals board, that consists of three regular members and three alternate members. The board of supervisors directly appoints appeals board members. The term of each regular and alternate member that serves on the assessment appeals board is three years. The appeals board clerk schedules assessment appeal board hearings. Hearings are usually scheduled every other month. All appeals board member have received required training and are in compliance with section 1624.02.

Upon receiving a copy of an assessment appeal application from the clerk of the board, the assessor's technical unit reviews it for completeness, enters the information from the appeal application into the computer system, and then forwards the application to the chief appraiser. The chief appraiser then assigns the appeal to one of four appraisal teams.

The taxpayer is contacted by telephone to discuss the appeal. If the taxpayer decides to withdraw the appeal, the assessor sends a form letter to the taxpayer for his/her approval and instructions to return it to the clerk of the board. Upon approval by the appeals board, the appeal is officially withdrawn. If the taxpayer and the assessor agree to a reduced value, a stipulation form is sent to the taxpayer. If the appeals board approves the stipulation, the appeal is resolved. If no agreement can be reached, the appeal process continues and a hearing is scheduled.

The following table illustrates the number of assessment appeals filed and the disposition of those appeals over the last four assessment years:

ASSESSMENT YEAR	2002-03	2001-02	2000-01	1999-00
Total filed	112	102	71	NA
Carryover	4	7	31	NA
Total appeals	116	109	102	100
Withdrawn	NA	98	87	66
Stipulated	NA	0	2	0
Reduced	NA	1	3	3
Upheld	NA	6	3	0
Carryover	NA	4	7	31

During the past four years every appeal was resolved within two years unless the taxpayer agreed to a waiver of the statutory time limits.

We reviewed eight appeals and found them to be clear and well-documented. Overall, the assessor's portion of the assessment appeal program is well administered. The staff handling appeals are experienced, well-prepared, and work well with the assessment appeals board. We found no problems with the assessor's assessment appeals program.

**Racehorse Administrative Tax**

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish the BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

In order to meet the racehorse definition as stated in section 5703:

- A horse must have actually raced;

- A horse must be registered or eligible to be registered as a race-horse in one of the five "eligible to race" breeds stated in rule 1046: thoroughbreds, quarter horses, standard breeds, Appaloosa horses, and Arabians;
- If the horse is over four years old in the case of Arabians (three years for all others) and never raced, the horse must have been used for breeding purposes in order to produce racehorses during the preceding two years.

The assessor annually sends racehorse tax return forms to prior year owners. In addition, he sends appropriate tax report forms to horse boarding facilities. For the 2003-04 roll, there were 176 racehorse tax returns filed. The assessor and tax collector exchange returns, providing effective control. Examinations of returns to tax collector and assessor copies indicated no returns exceeded the threshold for mandatory audit. We found that the assessor effectively administers the annual racehorse in-lieu tax.

## **ASSESSMENT OF REAL PROPERTY**

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

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

Under article XIII A of the California Constitution, the taxable value of most real property may not exceed its full cash value as of the later of (1) the 1975 lien date or (2) the property's most recent change in ownership or completion of new construction. This ceiling on taxable value establishes the property's "base year value," which is subject to an annual inflation adjustment not to exceed two 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 change in ownership for property tax purposes.

Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

### **Document Processing**

The assessor's primary means of discovering properties that have changed ownership is a review of deeds and other documents recorded with the county recorder. Deeds and other recorded documents that transfer ownership are imaged and scanned daily by the recorder and sent electronically to the assessor. San Luis Obispo County Ordinance No. 1932 requires that deeds be identified by an assessor's parcel number (APN).

The following table shows the total number of recorded documents and reappraisable transfer documents processed by the assessor for the most recent five years:

ASSESSMENT ROLL	RECORDED DOCUMENTS	REAPPRAISABLE TRANSFER DOCUMENTS
2003-04	117,836	10,300
2002-03	102,461	10,816
2001-02	89,186	11,570
2000-01	89,492	13,077
1999-00	88,131	11,679

We reviewed 11 recorded changes in ownership, as well as Form BOE-502-A, *Preliminary Change of Ownership Reports* (PCOR's), and Form BOE-502-AH, *Change of Ownership Statements* (COS's). We found all to be well documented and effectively tracked. In addition, we found that section 482 or 483 penalties were applied where required.

**Transfer List**

Section 408.1 requires the assessor to maintain, and make available for public inspection, a list of property transfers for the most recent two-year period. The type of information that should be included on the list is specifically outlined.

The assessor makes a microfiche list of real property transfers that occurred in the preceding two-year period, available for public inspection. Transfers on this list are described by assessor's parcel number, and the list includes the following information; recording date, document number, and selling price as indicated by the documentary transfer tax. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

**Parent/Child and Base-Year Value Transfer Exclusions**

Section 63.1 excludes from change in ownership principal residences and the first one million dollars (\$1,000,000) of other real property transferred between parents and children. The exclusion also applies to transfers between grandparents and grandchildren if all of the parents of the grandchild or grandchildren are deceased as of the date of transfer.

Section 69.5 allows qualified homeowners who are 55 years of age or older or disabled to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county.

The following table represents the most recent five years of filings available for sections 63.1 and 69.5 properties:

EXCLUSIONS	2003-04	2002-03	2001-02	2000-01	1999-00
Section 63.1	1,499	1,531	1,244	1,378	1,408
Section 69.5	143	99	111	76	61

We found that the assessor verifies, tracks, and processes section 63.1 and section 69.5 claims effectively. However, we did find one problem with the section 69.5 program.

**RECOMMENDATION 2:** File quarterly reports with the BOE as required by section 69.5(b)(7).

In order to prevent duplication of claims, section 69.5(b)(7) requires the assessor to file quarterly reports listing base year value transfers with the BOE. We found that the assessor has not filed such quarterly reports with the BOE since 1997. The assessor's failure to furnish this information to the BOE creates an incomplete statewide database and may result in base year value transfers being improperly granted in other counties.

**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 its subsidiaries. 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 corresponding 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 notice of the real property transfer.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county 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, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, the LEOP unit advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Between July 1, 1995 and September 1, 2001, the BOE notified the assessor of changes in control of 10 legal entities involving 123 properties. We reviewed several randomly selected transfers and found that the assessor properly reviews the transfers and reappraises the properties when appropriate.

**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 463.5 attempt to clarify the statutory provisions of sections 70 and 71, and 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 73 through 74.7 address these exclusions.

### Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives an average of about 9,300 permits annually from 8 permit-issuing agencies and the Department of Environmental Health. The agencies are the cities of Arroyo Grande, Atascadero, Grover Beach, Paso Robles, Pismo Beach, Morro Bay, and San Luis Obispo, and the County of San Luis Obispo.

### Permit Processing

The county building department electronically forwards all permits and a copy of each permit to the assessor daily. With the exception of Pismo Beach, the cities mail all permits to the assessor on a monthly basis. The assessor obtains the permits directly from the City of Pismo Beach.

All building permits are processed by the transfer staff, which consists of one supervisor and three assessment technicians. The assessor's parcel numbers (APNs) are verified and matched to the situs address and legal description. The building permits are then inputted into a database and spreadsheets are generated in APN order. All permits are filed with the building record for future reference.

The chief appraiser forwards the spreadsheets to the supervising appraisers for assignment to staff. Each appraiser is given a hard copy for their assigned area. Every permit received is given a building code that identifies the permit activity that in turn "triggers" the mailing of the appropriate new construction questionnaire. Most permits that have potential value changes are field checked. Small new construction events may be enrolled without a field review. Before the lien date, a computer-generated list of all remaining permits in the county is given to each appraiser. This list is reviewed to determine the status of completion on lien date and for tracking construction in progress (CIP). The processing procedures are thorough and provide effective retrieval of information, allowing appraisers to make informed decisions.

For the 2002-03 assessment roll, the assessor's office processed over 9,700 new construction permits that added \$683,293,087 to the roll.

### New Construction Valuation

The assessor estimates the full value of new construction as of the date of completion or, if there is construction in progress, as of the lien date. When the construction is complete, the new construction is valued and that value becomes the base year value. The assessor uses several cost

sources, including the Assessors' Handbook Section 531, *Residential Building Costs*, owner's actual cost, Marshall Valuation Service, and locally developed cost factors. The value of new construction on commercial, industrial, and special properties is estimated using the market approach, income approach, actual cost, or Marshall Valuation Service.

We found the appraisal files to be well documented and the assessor's program for assessing new construction in compliance with all statutory requirements.

**Construction in Progress**

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value upon completion and a base year value is assigned. We found no problems in the valuation of construction in process.

**Supplemental Assessments**

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and June 30, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. The supplemental assessments are generated by computer and are electronically forwarded to the auditor-controller for issuance of the tax bills. However, the county auditor will cancel small supplemental tax bills that are \$5 dollars or less. The total supplemental assessment process, from reappraisal event date to supplemental billing, takes approximately three to four months. The following table shows the number of supplemental assessments processed by the assessor's office for the last five assessment rolls:

ASSESSMENT ROLL	2002-03	2001-02	2000-01	1999-00	1998-99
Supplemental Assessments	19,122	21,698	NA	22,480	17,423

The assessor's supplemental assessment program is timely and reflects accurate value calculations.

**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 factored base year value 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 factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501, *Basic Appraisal*, January 2002, p. 140.)

The assessor discovers declines in residential, commercial, industrial, rural and other properties through several means. One such method is by appraiser familiarity with his or her assigned geographic area and specialty. In addition, taxpayer requests for review and assessment appeals application filings trigger reviews for value declines. When such activity occurs, the assessor reviews the property in question and other properties with similar value attributes or locations.

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor to the prior year's taxable value. Due to a strengthening of the local real estate market over the last few years, the number of properties with market values lower than their FBV's has declined.

The following table shows the most recent data available for decline-in-value assessments by type of property:

ASSESSMENT ROLL	2002-03	2001-02	2000-01	1999-00
Residential	7,115	7,080	6,218	13,324
Commercial	175	388	383	436
Industrial	22	39	14	66
Rural	13	194	1,388	25
Other	1,545	3,582	5,535	662
Total	8,870	11,283	13,537	14,513

The residential, commercial, industrial, rural and other property records for properties with decline-in-value assessments are well documented, and the values are adequately supported. Most records include either a comparable sales listing or an income approach value indicator. For those properties that were subject to an assessment appeal, the documentation is more comprehensive.

**RECOMMENDATION 3:** Revise the *Application for Decline-In-Value Reassessment* form to clearly indicate that the comparable sales data is optional.

In our prior survey, we recommended that the assessor delete from his *Application for Decline-In-Value Reassessment*, the requirement that the property owner supply comparable sales information.

In our current survey, we determined that, while the assessor has reworded the application, it still appears to require that the assessee provide comparable sales information in order for the request to be processed. Section 51 requires that the assessor enroll the lower of the factored base year value or current market value regardless of whether information is supplied by the property owner.

While the assessor agreed that the assessee is not required to provide comparable sales information in order for the request for review to be processed, this may not be clear to a property owner completing this application.

We recommend that the assessor revise his request for review form to clearly indicate that the comparable sales information is optional.

### **California Land Conservation Act Property**

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

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

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2003-04 assessment roll, San Luis Obispo County had 808,601 acres under CLCA contracts. Approximately 12,300 acres were in nonrenewal status and 4,300 acres were enrolled under section 110.1 because these values were lower than the calculated restricted values. The restricted and nonrenewal values on the 2003-04 roll totaled approximately \$485,000,000.

In our prior survey, we recommended that the assessor revise the CLCA questionnaire to include all potential compatible use income. We found that the assessor has implemented this recommendation.

### **Capitalization Rates**

Section 423(b) prescribes the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

Primary uses for CLCA property in San Luis Obispo County are grazing, dry farm lands, vegetable crops, and vineyards. According to the County Agricultural Commissioner's 2002 Annual Crop and Livestock Report, there were over 75,000 acres of orchards, vineyards, and irrigated croplands, and over 1,100,000 acres of grazing and dry farm lands. The agricultural preserve assessment program is highly computerized, including the annual recalculation of non-renewal values and the comparisons of current restricted value and current market value. An *Agricultural Data Record* questionnaire is mailed annually to all CLCA property owners. The response is then entered in the computer data bank and the data is summarized on spreadsheets. In addition, a *Vineyard/Orchard Questionnaire* is mailed annually to all living improvement property owners not under CLCA contract. One senior property appraiser is in charge of rural property and CLCA valuations.

**RECOMMENDATION 4:** Properly classify underground irrigation systems as improvements pursuant to rule 124.

The assessor classifies underground irrigation mainlines for drip systems as land. Pursuant to rule 124, underground pipelines should be classified and assessed as improvements. As special assessments may apply only to improvement value, taxes may have escaped when improvements are classified as land.

### ***Taxable Government-Owned Property***

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11 provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

There are 80 taxable government-owned properties enrolled in San Luis Obispo County. The total taxable government-owned property assessment for the 2003-04 assessment roll is \$8.09 million. Valuation of a public entity transfer is handled the same as any other transferred property. Once the legal description and assessor's parcel number are determined, the documents are forwarded to the property transfer section for ownership identification. The taxable government-owned properties are then forwarded to one real property appraiser for assessment. The assessor has a specialized computer program that annually updates the restricted value and the factored base year value for comparison with the market value, taking the lowest value for enrollment.

The assessor has implemented a recommendation made in our prior survey to refrain from assessing agricultural possessory interest assessments on taxable government-owned properties.

**RECOMMENDATION 5:** Follow the guidelines of Letter To Assessors 2000/037 in the assessment of taxable government-owned properties.

In our review, we found the assessor failed to implement the guidelines in the assessment of taxable government-owned properties. On June 15, 2000, the Board of Equalization approved a change in the guidelines for the assessment of taxable government-owned properties, outlined in

Letter To Assessors (LTA) No. 2000/037. These guidelines supersede LTA's Nos. 79/40, 79/187, and 82/136, and any information presented in the 1990 Assessment Practices Survey (A Report on Section 11 and PERS Properties).

The guidelines outlined in LTA 2000/037 provide that the base year value of taxable government-owned properties acquired after March 1, 1975 and located in counties other than Inyo and Mono are established at the lower of current fair market value or the restricted value as of the date of change in ownership. Failure to follow the guidelines in LTA No. 2000/037 results in the improper determination of the base year value of taxable government-owned properties. The assessor has not implemented these guidelines.

### ***Possessory Interests***

A taxable possessory interest (PI) results from the possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest is based on the value of the rights actually held by the possessor; the rights retained by the public owner are not taxable.

There are currently 1,084 taxable possessory interests assessed in San Luis Obispo County with an assessed value exceeding \$130 million. All the possessory interest appraisals are assessed on the secured roll and are assigned to two property appraisers and one supervising appraiser. The assessor has a database tracking system for alerting appraisers to term expiration and other information that may indicate a reappraisal is necessary.

With the exception of the following recommendation, the assessor's possessory interest assessment program is effective and complies with property tax law.

#### **RECOMMENDATION 6:** Value taxable possessory interests according to rule 21.

We found the assessor does not use the stated term of possession when determining the market value of a possessory interest for each lien date. The assessor does not annually re-compute the market value of the possession using a declining premise, instead he enrolls the FBV until the expiration of the contract term of possession or there is a change in ownership.

Rule 21 provides that a contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee anticipate that a different term is appropriate. Rule 21 also provides that the "stated term of possession" for a taxable possessory interest is the remaining period of possession. Thus, the stated term of possession of a possessory interest declines on each lien date, which may have a material effect on the value of the interest. For this reason, the appraiser must estimate the market value of a possessory interest on the lien date (based on the stated term of possession), compare this value with the factored base year value and enroll the lower of the two values.

Failing to use the stated term of possession when valuing possessory interests may overstate the taxable value of the possessory interest.

### ***Historical Property***

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city

and county restricting the use of that property in exchange for valuation according to a statutorily-prescribed capitalization of income method. Section 50280.1 stipulates that in order for a property to qualify as a historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

The following table illustrates the most recent data available for historical properties and their roll value:

ASSESSMENT ROLL	HISTORICAL PROPERTIES	ROLL VALUE
2003-04	24	\$5,115,755
2002-03	24	\$4,690,228
2001-02	19	\$2,618,095
2000-01	18	\$2,450,074
1999-00	18	\$2,386,783

The assessor annually compares the factored base year value, the market value, and the restricted value for each property and enrolls the lowest of the three. Included in the value conclusion are rent comparables, sales comparables, and expense ratios used in the market and income approaches. The market and income approaches are well-documented. Appraisal files contain copies of the contracts with the local governments, income data, worksheets, and appropriate ordinances establishing a historical preservation district and the historical preservation zone.

Historical properties in San Luis Obispo County are assessed correctly.

**Leasehold Improvements**

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee (Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, November 2002 edition, p. 92). 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 a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on the *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 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. Additionally, both divisions must agree on which items will be assessed by which division; otherwise, escapes and/or double assessments may result.

Our survey noted that San Luis Obispo County Assessor properly classified reported structural improvements and fixtures on the unsecured roll. In addition, there is good communication between the real property staff and the business property staff. The business property staff routinely forwards a memo or copy of relevant pages of the business property statement to the real property staff. We found that the assessor has an effective program for assessing leasehold improvements.

### ***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 non real-property items (considered non-taxable). Examples of non-real property items include vacation exchange rights, club memberships, selling and promotional expenses, and prepaid expenses such as maintenance fees.

San Luis Obispo County has two timeshare projects with a total of 8,983 separate assessments and a 2003-04 roll value of \$43,047,062. Assessments are coded with a "902" series number that is linked with the homeowners' association's fee parcel number. This ensures proper tracking of each assessment and prevents confusing a resale timeshare with a new (original sale) timeshare.

One real property appraiser is responsible for valuing timeshares. The assessor relies primarily on the local resale market to value individual timeshares. There is no seasonal influence reflected in their valuation. All timeshare projects are considered of equal value. Comparable sales used are appropriately discounted for marketing expenses, personal property and non-real property items.

Timeshares are systematically reviewed each year for declines in value. We found no problems with the assessor's timeshare program.

### ***Water Company Property***

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

## **Municipal Water Systems**

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments and located within city limits, and property owned by water districts located within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California Constitution provides that publicly-owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district.

We found the parcels owned by the municipal water systems located within the city limits or district boundaries to be assessed correctly. The parcels were properly exempted from taxation under article XIII, section 3(b) of the California Constitution.

## **Mutual Water Companies**

A mutual water company is a private association created for the purpose of providing water at cost to its owners. If incorporated, those property owners served by the system hold shares of that company's stock. An incorporated mutual water company can enter into contracts, incur obligations, and own property. However, if unincorporated, it may perform those acts only in the names of all its members.

Mutual water company shares are typically appurtenant to the parcels that the company serves. In such cases, the value of the mutual water company assets is typically reflected in the assessed values of the properties it serves and to which the shares attach. However, if the ownership in a mutual water company is not appurtenant to the land, its land, improvements, and personal property must be assessed separately from those served parcels.

There are 192 mutual water companies in San Luis Obispo County and all of the companies limit their service to stockholders and members. The assessor applies the proper procedures when assessing mutual water companies located within the county.

## **Regulated Water Companies**

Private water companies, both regulated and unregulated, are utility companies that earn profit from the sale of water. The CPUC regulates the rates charged by private water companies, limiting profits to an authorized return on the companies' investment. The market values of real property owned by regulated companies are tied directly to those rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value.

Our examination of the regulated water company appraisal records indicates that the assessor correctly assesses these properties. The assessor considers the historical cost less depreciation (HCLD) method and compares that to the factored base year value and the lower of the two values is enrolled.

The assessor applies the proper procedures when valuing private regulated water companies.

We obtained a list of all water supply sources annually inspected by the San Luis Obispo County Department of Environmental Health, and the California State Department of Health Services' Branch of Drinking Water Field Operations. Using that list, we reviewed the unregulated company properties.

San Luis Obispo County has two unregulated water companies with a total assessed value of \$58,112. Our examination of the unregulated water company appraisal records indicates that the assessor correctly assesses these properties.

### **Pipeline Rights-of-Way**

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority.<sup>6</sup> The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

San Luis Obispo County has seven right-of-way pipeline assessments on the local roll with a total assessed value of \$5,268,572. All the pipeline rights-of-way are valued by one real property appraiser in the Atascadero branch office. The assessor maintains a separate base year value for each separate right-of-way interest, but assesses each taxpayer's intercounty pipeline rights-of-way to a single countywide parcel pursuant to section 401.8(a).

We checked the current roll values and confirmed that the values have been correctly factored from their 1975 base year. Each individual pipeline right-of-way receives a separate base year assessment. Additionally, each pipeline assessee files reports to the assessor either on Form BOE-571-RW or BOE-571-P, pursuant to section 441.

### **Mineral Property**

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are rule 468, *Oil and Gas Producing Properties*, rule 469, *Mining Properties*, and rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties, and are specific to mineral properties only.

### **Petroleum Properties**

The enrolled value for petroleum properties is approximately \$28 million. San Luis Obispo County ranks eighth in oil production in the state with 693,000 barrels in 2000, which is less than 0.5 percent of the state's total production. Most of the county's petroleum production comes from the Arroyo Grande field. The other fields in the county are mature and near the end of their economic life.

A supervising appraiser appraises the petroleum properties. In the prior survey, we recommended that the assessor (1) correct the programming error in the production scheduling software; (2) assess only proved reserves; (3) appropriately recognize the condition of well improvements for petroleum properties; and (4) match abandonment expenses to the life of the property.

We found that the assessor has implemented the first three of these recommendations. The assessor has changed the computer program used for cash flow analysis, adopting the Kern County Assessor's appraisal program. The assessment of reserves other than proved was an error

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<sup>6</sup> *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4<sup>th</sup> 42.

limited to one property and was corrected. With the adoption of the new appraisal program the assessor's procedure for allocating well improvement value has been changed as well.

**RECOMMENDATION 7:** Revise petroleum property valuation procedures by:  
(1) accounting for abandonment expenses at the end of the economic life of the property and (2) correctly applying a petroleum valuation computer program to ensure accurate lien date values.

#### **Account for abandonment expenses at the end of the economic life of the property.**

A misunderstanding in how abandonment expenses are treated in the discounted cash flow appraisal program used by the assessor resulted in scheduling abandonment expenses long after the economic life of the property has been reached. The program requires that the appraiser input the time to defer abandonment expenses after the end of production, which is normally one year. However, the appraiser thought the program required an estimate of the remaining life of the property, which resulted in a much longer term to defer the abandonment expenses.

For one property in the county, the appraiser used the remaining economic life of 25 years to defer the abandonment expenses. Thus, the abandonment expenses were deferred 25 years after the end of the economic limit, approximately 49 years after the appraisal date. The discounted value of the \$1.6 million abandonment expenses was less than \$2,000; our estimate of the correct discounted abandonment expenses is \$49,000. This error resulted in an overassessment of the property's current market value. Assessors' Handbook Section 566, *Assessment of Petroleum Properties*, provides that appraisers should not assume abandonment expenses would occur after the economic life of the property has been reached. Abandonment expenses should therefore be deferred no more than one year after the end of production.

#### **Correctly apply petroleum valuation computer program to ensure accurate lien date values.**

We found a procedural error in the way the assessor uses the computer program that resulted in underestimating the current market value of the petroleum properties. The assessor used an appraisal date of December 31, 2002, instead of the lien date, January 1, 2003, in the computer program. By using a date with the year prior to the year of the lien date, the program begins the discounted cash flow calculation with zero production and no net income for the first year, instead of a full year of production. We found that the error understated the value of one major property by \$3.5 million dollars.

#### **Mining Properties**

San Luis Obispo County's mineral properties produce sand, gravel, limestone, and gypsum. In our prior survey, we recommended that the assessor include working capital in the cash flows of mineral property appraisals. The assessor had been treating the first year's working capital as an offset to value. The assessor has corrected this and now includes a charge in the cash flow for the interest on working capital, which is one method of treating working capital described in Assessors' Handbook Section 560, *Assessment of Mining Properties*.

## 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.

Annually, the assessor's business property staff processes about 11,500 business property statements, performs an estimated 280 audits, and assesses about 150 documented vessels, 10,500 pleasure vessels and 460 aircraft. Excluding manufactured homes, the total value of personal property and fixtures on the 2003-04 assessment roll was approximately \$844.6 million.

### **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.

The business property staff consists of seven certified auditor-appraisers, four full-time and two half-time positions, and one supervising auditor-appraiser.

The following table shows the total number of audits completed over the last five years:

ASSESSMENT ROLL	MANDATORY AUDITS	NONMANDATORY AUDITS*	NET VALUE CHANGE	
			Mandatory Audits	Nonmandatory Audits
2002-03	69	200	\$24,105,160	\$16,732,088
2001-02	84	200	\$14,897,588	\$11,144,706
2000-01	69	209	\$7,274,272	\$35,259,501
1999-00	78	202	\$15,666,353	\$14,805,073
1998-99	86	198	\$30,568,030	\$13,643,127

\*Nonmandatory audit statistics are kept on a calendar year basis

### **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 reviewed a list of mandatory and non-mandatory audits, and found working papers, cross-referencing, and audit lists detailing issues considered and records examined all to be in order and well documented.

### **Mandatory Audits**

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

San Luis Obispo County has a total workload of approximately 420 mandatory audit accounts. We reviewed the assessor's schedule for completing the mandatory audits and found all either completed timely or protected by signed waivers of the statute of limitations.

### **Nonmandatory Audits**

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer-reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

The assessor performed 200 nonmandatory audits for calendar year 2002 that resulted in a tax change of over \$16,000,000. About 1,000 nonmandatory audits were performed over the past five years resulting in a net value change of over \$91,000,000. We found that the assessor maintains an effective nonmandatory audit program.

### **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, 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's office had three mandatory audits that could not be started or completed within the statutory time frame defined in section 532. In all three instances, a waiver of the statute of limitations was obtained and a copy placed in the file.

### **Audit Results**

In our 2001 survey report, we recommended the assessor follow statutory requirements when enrolling escape assessments and reducing overassessments. Our review indicates that the assessor continues the practice of netting audit escapes and overassessments.

**RECOMMENDATION 8:** Process overassessments and underassessments resulting from a multiple-year audit according to section 533.

In a multiple year audit, there are often underassessments resulting in tax liabilities for some years and overassessments resulting in tax refunds in others. The assessor incorrectly offsets assessment differences and enrolls the net assessment difference in the most current year.

There is no statutory authority for offsetting underassessments and overassessments from different years. Rather, section 533 allows the offset of tax refunds against tax liabilities, not assessments. Tax liabilities include the correct tax rate and applicable interest for the appropriate length of time. To accurately determine the correct tax liability, the proposed tax liabilities and the tax refund must be made in the correct year.

### ***Business Property Statement Program***

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

In our review of the business property statement processing, we found that the staff adheres to written policies, and that authorization statements for agents are kept on file. We also found that staff applies valuation factors and percentage of fixtures to personal property consistently from prior years within the same industry.

### **Discovery**

Auditor-appraisers conduct field canvassing annually, prior to the lien date. Field canvassing is the principal means of discovering assessable business property from new businesses. Other means of discovering assessable business property include business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories, referrals from other counties, and BOE notifications. Our survey indicates that the assessor's office effectively employs various methods to discover taxable business and personal property.

### ***Business Equipment Valuation***

#### **Commercial, Industrial, and Agricultural Equipment**

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent-good factors. A value indicator is obtained by multiplying a property's historical (acquisition) 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 Index and Percent Good Factors* (AH 581).

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 the

AH 581 with the exception of specific types of equipment, e.g., pagers, facsimile equipment, and photocopiers, which CAA recommends should not be trended. The percent good factors also parallel the AH 581 factors with the exception that the CAA factors provide a minimum percent good factor for older equipment.

**RECOMMENDATION 9:** Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The assessor uses minimum valuation factors in the valuation of older machinery and equipment without market data to support the factors. However, beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner. The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good factor. The assessor has no supporting evidence for using such minimum factors; hence the manner is not supportable as required by section 401.16.

Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA is not supported by a study. Therefore, the assessor should discontinue the use of minimum percent good factors and untrended valuation factors.

### Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

The assessor sends direct billing recipients a business property statement every three years to update the information and review their eligibility. We reviewed the assessor's written policy and the direct billing program and found no problems.

### Computer Valuation

Pursuant to section 401.5, the BOE also issues valuation factors for computer equipment (see AH 581, "Table 6: Computer Valuation Factors").

We found that the assessor has adopted the BOE's factors and uses them in valuing computer equipment as recommended in our prior survey.

### Service Station-Classification

Machinery and equipment must be classified either as personal property or as fixtures (improvements) depending on whether the item is physically or constructively annexed to real

property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely.

We reviewed three service station business property statements and found no problems either in the processing of the statements or the classification of machinery and equipment.

### **Leased Equipment**

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

We reviewed the procedures for assessing leased equipment. We found that the leased equipment program is well managed and does an excellent job in the discovery, processing, tracking, and assessing of leased equipment. We have no recommendations in this area.

### **Aircraft**

#### **General Aircraft**

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The assessor assessed 456 general aircraft for the 2003-04 assessment roll. We reviewed eight general aircraft samples and found that the assessor uses the *Bluebook* for the valuation of aircraft and makes the appropriate adjustments in arriving at the estimated market value.

#### **Certificated Aircraft**

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

San Luis Obispo County assesses four air taxis and one aircraft used for cargo freight. We found that the assessor uses the recommended worksheet and CAA aircraft subcommittee values in processing certificated aircraft.

## **Historical Aircraft**

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

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

The assessor granted approximately 30 historical aircraft exemptions for the 2003-04 assessment roll. We found no problems with the program.

## **Vessels**

Assessors in California are required to annually appraise vessels at market value, except as provided in section 228 (no more than one vessel owned, claimed, or controlled by an assessee on the lien date, not used for commercial purposes, and having a market value of \$400 or less, may be free from taxation) and section 155.20 (low-value property exemption). San Luis Obispo County has not adopted a resolution pursuant to section 155.20.

In addition, section 227(c) provides for a 96 percent exemption for documented vessels. This exemption applies to sport fishing vessels carrying or transporting seven or more people for commercial passenger fishing. To qualify for the 4 percent assessment under section 227(c), a vessel must hold a current certificate of inspection by the U.S. Coast Guard.

The assessor assessed over 10,500 vessels on the 2003-04 assessment roll, with a total assessed value of \$58,797,542.

Vessels are tracked through reports from the Department of Motor Vehicles (DMV) and referrals from other counties of vessel owners moving their vessels to San Luis Obispo County. Additionally, harbor masters and storage facilities identify and report vessels located within their respective jurisdictions. The assessor has an effective discovery program for vessels.

The following table shows the assessor's vessel data for the last five years:

ASSESSMENT ROLL	PLEASURE VESSELS		DOCUMENTED VESSELS	
2003-04	10,483	\$58,797,542	148	\$635,301
2002-03	10,302	\$60,745,527	146	\$781,684
2001-02	9,753	\$49,591,988	149	\$525,181
2000-01	14,942	\$46,731,720	153	\$460,412
1999-00	8,924	\$42,199,333	147	\$634,700

The assessor bases the initial vessel value on estimates from one of the following value guides: *BUC Used Boat Price Guide*, *N.A.D.A. Marine Appraisal Guide* (N.A.D.A.), or *ABOS, New Boat & Motor Price Guide Blue Book*. In certain instances, other sources may be used, such as *Kelley Blue Book Personal Watercraft*, Internet resources, sales data, and trade magazines such as *Santana* and *Latitude 38*. Sales tax is correctly added to the value of the vessels. Subsequent assessments are based on the prior year's roll values adjusted by a factor taken from a staff-developed depreciation table updated annually. These schedules are derived from a study of year-to-year changes in vessel values published in N.A.D.A.

Our review of a representative sample of vessels, including those vessels subject to the 96 percent exemption, indicates that the assessor values vessels properly.

### **Manufactured Homes**

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

For the 2003-04 roll, there were 2,726 manufactured homes in San Luis Obispo County, located in 86 mobilehome parks, with an assessed value of \$100,323,019.

The assessor assigned the appraisal of manufactured homes located in mobilehome parks to four appraisers by geographic area. Manufactured homes not in a mobilehome park are assigned to the appraiser responsible for all other single-family residences in that geographic location.

The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development (HCD) listings, building permits, and dealer's reports of sale.

In our prior survey, we recommended that the assessor (1) classify manufactured homes as personal property, (2) use recognized value guides, (3) conduct annual reviews for declines in value, and (4) mail a *Change of Ownership Statement* (COS) when the *Information Request for Manufactured Housing* is not returned. The assessor now uses the *N.A.D.A. Manufacturing Housing Appraisal Guide* to value manufactured homes.

Concerning the recommendation to mail a COS, upon further review, we believe the assessor's prior practice provides sufficient information to fairly assess the majority of manufactured homes. Unlike section 480.3 that requires that the assessor and recorder make available the PCOR, there is no similar statutory provision requiring the assessor to mail a COS. Sections 480, 480.1, and 480.2 require the assessee to file a COS upon a change of ownership or change in control, but there is no requirement for the assessor (or the BOE) to send the form. If the assessor (or the BOE) mails a form (often when a PCOR is not filed with a deed) and it is not filed timely, a penalty must be added to the assessment roll. Therefore, we will not repeat this recommendation. However, the assessor did not implement the two remaining recommendations concerning manufactured homes.

**RECOMMENDATION 10:** Modify manufactured home assessment procedures by:

- (1) enrolling manufactured homes as personal property,
- (2) assessing manufactured homes at the lesser of the factored base year value or the current market value, and (3) requiring only a completed homeowners' exemption claim to apply for the homeowners' exemption as provided in section 253.5.

**Enroll manufactured homes as personal property.**

The assessor continues to improperly enroll manufactured homes as real property improvements on the secured roll. Section 5801(b)(2) provides that manufactured homes shall be classified as personal property. This is explained in detail in LTA No. 92/57 and in Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks*.

**Assess manufactured homes at the lesser of the factored base year value or the current market value.**

The assessor does not annually review manufactured home assessments for declines in value. In our prior survey, we recommended that the assessor annually review manufactured homes for declines in value on each lien date. It is the assessor's practice that, once a base year value for manufactured homes is established, it is adjusted by the annual inflation factor each year.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. A review of cost manuals and value guides indicate that it is not unusual for manufactured homes to decline in value. Though not required to reappraise all properties *each* year, the assessor should develop a program to periodically review the assessments of manufactured homes to ensure that declines in value of manufactured homes are recognized accurately and consistently.

**Require only a completed homeowners' exemption claim to apply for the homeowners' exemption as provided in section 253.5.**

The assessor inappropriately requires a manufactured homeowner to file a homeowners' exemption claim and a locally developed notice when applying for the homeowners' exemption. The notice contains a statement that a manufactured homeowner must return both the notice and the homeowners' exemption claim to apply for the homeowners' exemption.

Section 253.5 provides that any claimant for the homeowners' exemption must submit an affidavit to the assessor providing certain information as determined by the BOE. The BOE approved forms BOE-266, *Claim for Homeowners' Property Tax Exemption* and BOE-266-S, *Claim for Homeowners' Property Tax Exemption (CARD)*, to use as the affidavit for this exemption. Therefore, the assessor cannot add another requirement to this affidavit.

## **APPENDICES**

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

#### ***San Luis Obispo County Assessment Practice Survey***

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

Mickie Stuckey

##### ***Survey Program Director:***

Benjamin Tang

Principal Property Appraiser

##### ***Survey Team Supervisor:***

Arnold Fong

Supervising Property Appraiser

##### ***Survey Team Leader:***

Carlos Zaragoza

Senior Specialist Property Auditor-Appraiser

##### ***Survey Team:***

James McCarthy

Senior Petroleum and Mining Appraisal  
Engineer

Robert Curry

Associate Property Appraiser

Robert Donay

Associate Property Appraiser

Robert Rossi

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Pamela Bowens

Associate Property Auditor-Appraiser

Raymond Tsang

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

## **B. Relevant Statutes and Regulations**

### **Government Code**

#### **15640. Survey by board of county assessment procedures.**

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

#### **15641. Audit of Records; Appraisal Data Not Public.**

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

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

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

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

**15642. Research by board employees.**

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

**15643. When surveys to be made.**

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

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

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

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

## Revenue and Taxation Code

### 75.60. Allocation for administration.

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

(b) For purposes of this section:

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

**Title 18, California Code of Regulations**

**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
  - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

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

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

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

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

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

## **ASSESSOR'S RESPONSE TO BOE'S FINDINGS**

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

The San Luis Obispo County Assessor's response begins on the next page. The BOE has no comments on the response.



## OFFICE OF TOM J. BORDONARO, JR., COUNTY ASSESSOR

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November 9, 2004

David J. Gau, Deputy Director  
Property and Special Taxes Department  
P.O. Box 942879  
Sacramento, CA 94279-0062

RECEIVED  
NOV 16 2004  
County Property Tax Division  
State Board of Equalization

Dear Mr. Gau:

In accordance with Section 15645 of the California Government Code, attached is my response to the San Luis Obispo County Assessment Practices Survey as conducted by the State Board of Equalization in October 2004. Please include my response in your final survey report.

We appreciate your acknowledgement of the significant improvements found in the assessor's office since our last assessment practices survey. We are continuously striving to improve our practices through automation, improvements in efficiency, and productivity, while at the same time maintaining excellent public service. We believe that, overall, the survey report reflects the excellent quality of the assessment practices in San Luis Obispo County.

Although we are in agreement with several of the recommendations in the survey, there are some in which we differ in opinion. Even in those areas in which we differ, the assessment practices used by this office holds the taxpayer harmless. Included in the attached response you will find that some recommendations have already been implemented while others will be implemented as soon as possible.

We would also like to acknowledge Arnold Fong and the entire State Board of Equalization audit team for their amiable, professional, and courteous manner in which they conducted their survey.

Sincerely,

Tom J. Bordonaro, Jr.  
San Luis Obispo County Assessor

Attachments

TJB:jw

San Luis Obispo County Assessor

Response to State Board of Equalization  
Assessment Practices Survey  
October 2004

Recommendation 1: Ensure that the correct versions of BOE-prescribed forms are displayed on the assessor's Web site.

**Response:** *While we strive to insure that all forms on our web site are up to date, we have taken additional steps to monitor our forms published on the Internet.*

*We have found that displaying the current version of a prescribed form can be missed because of the cached memory on the web users PC. The cached memory may pull up an old version even though the current form is posted on our web site. We are exploring a variety of methods to inform web users to refresh their system cache so they will be sure to pull up the most recent version.*

*We have also established an office web group to monitor the information provided on our web site to assure accurate information.*

Recommendation 2: File quarterly reports with the BOE as required by section 69.5(b)(7).

**Response:** *We have made the necessary changes to correct this oversight and are filing the missing reports as required.*

Recommendation 3: Revise the *Application for Decline-In-Value Reassessment* form to clearly indicate that the comparable sales data is optional.

**Response:** *While we thought we had resolved this issue from the previous survey, we will review and revise the Application for Decline-in-Value Reassessment form as recommended.*

Recommendation 4: Properly classify underground irrigation systems as improvements pursuant to rule 124.

**Response:** *The Assessor has reviewed rule 124 and fails to see any specific reference to irrigation mainline but does note that the rule specifically states "However, nothing herein requires classification of an item of property to be*

*dependent upon anything more than what is reasonably manifested by outward appearance...” The Assessor believes that irrigation mainline, which is buried below the ground and by outward appearances becomes incorporated into the land, is properly classified as an improvement to the land while also recognizing and classifying all above ground irrigation equipment such as drip sprinklers, etc as improvements. It is important to point out that the current methodology is producing accurate assessments. In addition, there are no special assessments in San Luis Obispo County that currently apply only to improvements. We will continue to monitor these special assessments and reform our practice when necessary.*

**Recommendation 5:** Follow the guidelines of Letter to Assessors 2000/037 in the assessment of taxable government-owned properties.

**Response:** *This recommendation refers specifically to failure on the part of the Assessor to set the base year values of taxable government-owned properties acquired after March 1, 1975 at the lower of the current fair market value or the restricted value as of the date of the change in ownership as per LTA 2000/037.*

*The Assessor is not in agreement with the interpretation of law as presented in LTA 2000/037 and believes that base year values for all taxable government-owned properties within the county have been properly established per Section 50, which refers to base year value determination according to section 110.1 (the full cash value on the date on which a purchase or change in ownership occurs). The Assessor does not dispute that the taxable value enrolled the initial year following acquisition is the lower of the current fair market value or the restricted value, merely that this value would then establish the base year value if it were the restricted value. That a restricted value enrolled the initial year would become the base year value is in conflict with the tax code. The purpose of section 11 is to prevent the erosion of a county’s property tax base and consequent loss of property tax revenues. If the restricted value is established as the base year value, such erosion would occur each year subsequent, as the inflationary indexing factor has always been lower than the increase in the Philips factor between years. There is no reason to assume this will not continue in the future. Also, the court has held that the value limitation standard of article XIII A of the California Constitution also applies to government-owned lands located outside their jurisdictional boundaries. It is that value limitation standard which clearly defines the base year value as the **full cash value** as of the change of ownership.*

*In addition, establishing a restricted value as of the date of the change in ownership to be the base year value is completely contrary to the establishment of a base year value for property subject to section 423. Properties subject to section 423, similar to section 11 properties, are taxed each year at the lesser of 3 values: restricted, market or factored base year. The factored base year value*

*is the value determined to be the full cash value as of the change of ownership adjusted by the annual inflationary factor.*

*The Assessor believes our current method is correct and is following the proper procedure to establish the base year value as prescribed by law.*

Recommendation 6: Value taxable possessory interests according to rule 21.

**Response:** *The Assessor acknowledges that rule 21 provides that the “stated term of possession” for a taxable possessory interest is the remaining period of possession. A declining remaining term may have an effect on value such that the property may be subject to a section 51(a) “Decline in Value”. However the Assessor cites section 51 (e), which states in part that: “Nothing in this section shall be construed to require the assessor to make an annual reappraisal ...”.*

*The Assessor believes that staff is using the appropriate term of possession when valuing taxable possessory interests. The value determined for each possessory interest is reviewed at the end of its term of possession.*

Recommendation 7: Revise petroleum property valuation procedures by: (1) accounting for abandonment expenses at the end of the economic life of the property and (2) correctly applying petroleum valuation computer program to ensure accurate lien date values.

**Response:** *The Assessor recognized problems with the old valuation system and now uses a different program that properly addresses the abandonment charges and the lien date.*

Recommendation 8: Process over assessments and underassessment’s resulting from a multiple-year audit according to section 533.

**Response:** *Our current practice of netting audit escapes and refunds increases the efficiency of the property tax system. Because this method is more economical and preferred by the taxpayer, no change in procedure is contemplated. We currently enroll escaped assessments for each year as they are found in the audit, but at the same time, any reductions in the amount of assessments found by those audits is offset against the escapes thus providing the assessee with a net value. Instead of writing numerous revisions to the assessment roll, a single revision produces the same result. We do check tax rates to ensure that our actions do not unjustly affect the taxpayer.*

Recommendation 9: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

**Response:** *We disagree with the SBE's position that the minimum percent good factors are being utilized in an unsupported manner. The CAA has developed recommended guidelines for all counties to utilize so consistency is maintained in the valuation process. The minimum percent good utilizes the same logic prescribed by the SBE in AH581 as applied to the capping of the index factor. Additionally, Marshall Valuation Service salvage value data is reviewed annually to verify the utilized minimum factors. Available market evidence that supports differing minimums is also considered and utilized when available. SBE Letter to Assessors 2004/019 issued on March 30, 2004 states that Marshall Valuation Service salvage value data may be considered in arriving at minimum percent good factors, along with any evidence provided by a taxpayer when estimating the market value of the taxpayer's equipment. These sources are utilized in the determination of our minimum percent good factors and we are following the guidelines set forth in this letter.*

Recommendation 10: Modify manufactured home assessment procedures by: (1) enrolling manufactured homes as personal property, (2) assessing manufactured homes at the lesser of the factored base year value or the current market value, and (3) requiring only a completed homeowners' exemption claim to apply for the homeowner's exemption as provided in section 253.5.

**Response:** *(1) The Assessor does not anticipate any plan to enroll manufactured homes in San Luis Obispo County as personal property. We believe it is not in the best interest of manufactured homeowners, as it would require those taxpayers to pay their total property tax bill in one installment, as opposed to two installments allowed for conventional homeowners. At this time, San Luis Obispo County does not have any special assessments that apply only to improvements and we intend to continue to monitor special assessments to assure that they are properly applied.*

*(2) We have already implemented this practice and are now cyclically reviewing all manufactured homes and assessing them at the lessor of the factored base year or the current market value.*

*(3) Our intention for including a second notice was to receive a positive response from the assessee that they understood the options available to them between choosing the Homeowners Exemption and California Renters Credit. We have discontinued this notification and will look for other methods to inform the property owner that it may be beneficial to them to look at Renters Credit for additional savings.*