

SAN MATEO COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

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March 31, 2001

TO COUNTY ASSESSORS:

SAN MATEO COUNTY
ASSESSMENT PRACTICES SURVEY

2001/019

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

The BOE's County Property Tax Division performed the fieldwork for this survey of the San Mateo County Assessor's Office from March to August 1999. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank the Honorable Warren Slocum, San Mateo County Assessor/Recorder/Clerk, and his staff for their cooperation and patience during this assessment practices survey.

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

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
Enclosure

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INTRODUCTION

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

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

We have reformatted our Assessment Practices Survey Report so that no multi-part recommendations are included. This has the effect of increasing the number of recommendations in the reports. In addition, we have eliminated all formal suggestions. Some of these suggestions will be included in the new format as recommendations while others will be either dropped or simply stated within the text of the report. This too has the effect of increasing the number of recommendations within any given report.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, and to the San Mateo 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 Warren Slocum, San Mateo County Assessor/Clerk-Recorder,¹ elected to file his initial response prior to the publication our survey. The assessor's response is included in this report following the Appendices.

While 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.

¹ This survey and report will discuss only Mr. Slocum's responsibilities as assessor and the functions of the assessor's office.

SCOPE OF SURVEY

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 property valuation, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. In addition, Revenue and Taxation Code section 75.60² requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the San Mateo 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 Mateo County with information relevant to the property tax assessment program.

This survey also included an assessment sample of the 1998-99 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on our analysis that indicate statutory violations, under- or overassessments, or unacceptable appraisal practices may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We did not examine internal fiscal controls, or the internal management of the assessor's office outside those areas related to assessment.

² All statutory references are to the Revenue & Taxation Code unless otherwise indicated.

EXECUTIVE SUMMARY

- In our 1994 survey report of the San Mateo County Assessor's Office, we made 14 recommendations. Of those recommendations, the assessor fully implemented four, implemented part of one, and did not implement nine. The recommendations that were not implemented – or that were implemented in part – are repeated in this report.
- San Mateo County (with the recommendation of the assessor) elected to participate in the State-County Property Tax Administration Program. Funding from this program has allowed the assessor to eliminate much of the backlog in work, update his computer system, and restore some discovery programs.
- Staff appraisers are current in their mandatory training requirements.
- We found no problems in the assessor's administration of assessment appeals, the decline in value program, the Section 11 program, the commercial and industrial assessment program, and the mineral property assessment program.
- The assessor canceled low-value supplemental assessments without the authorization of a section 75.55 ordinance. With that exception, the low-value properties program conforms to the low-value ordinance.
- Disaster relief assessments are processed correctly. However, we recommend that the assessor request that the board of supervisors revises the disaster relief ordinance to reflect the change in the lien date to January 1.
- We make a number of recommendations for the change in ownership program. We found that the assessor was not applying the penalty when the taxpayer fails to timely respond to the request for a change in ownership statement, was not using the prescribed change in ownership statement forms, and was not reporting section 69.5 claims to the BOE.
- In the assessment of new construction, we found that the assessor is still not receiving permits from the county Department of Health Services. The assessor's permit tracking program tracks only 30 percent of all incoming building permits. The rest are culled and never entered into the system database. We repeat our prior recommendation concerning minimum permit value limits by recommending that the assessor track all permits to help in discovering assessable new construction.
- The possessory interest program needs revision. We found that the assessor does not obtain building permits from the San Francisco City and County Airport Commission. In addition, not all private uses at the county fairground are assessed.
- Base year values are not established for the real property of water companies.

- The assessment of land subject to the California Land Conservation Act (CLCA) needs improvement. We repeat our prior recommendation to use current rents in estimating the restricted value of CLCA lands. In addition, the assessor should obtain current rent information on crops from taxpayers and use the animal unit months indicator in analyzing and assessing grazing lands.
- The business property statement processing program is operating properly. However, instead of averaging the index factors in the Assessors' Handbook Section 581, the assessor should use the handbook section as intended. This is a repeat of our prior recommendation.
- Mandatory audits are completed timely. However, the assessor should develop a formal nonmandatory audit program. In addition, we recommend that aircraft and vessels owned by a business entity and used for business purposes be included in the mandatory audit program.
- Aircraft should be assessed according to the BOE guidelines.
- For vessels valued below \$80,000, the assessor should annually determine their market values. Owners of vessels valued at \$100,000 should be sent a property statement to discover additional equipment installed after initial purchase, and the fixed depreciation method of valuing vessels should be supported with a more current market study. This recommendation is repeated from the prior survey report. Additionally, we repeat our recommendation to require current certificates of inspection by the U.S. Coast Guard for the section 227(c) exemption.
- We found that apartment personal property is assessed incorrectly. We again recommend that the assessor classify apartment personal property as personalty and assess it separately from the improvement.
- BOE-600-B's from the BOE's Valuation Division are still not being reviewed in order to discover assessable property.
- The manufactured home assessment program needs revision. We repeat our prior recommendation to assess taxable manufactured home accessories. We also found that the staff was not correctly using the *NADA Manufactured Housing Appraisal Guide* and manufactured home assessments were not annually checked for declines in value.
- The county assessment roll easily meets the requirements for assessment quality established by section 75.60. Our sample of the 1998/1999 assessment roll indicated an average assessment ratio of 98.82 percent, and the sum of absolute differences was 1.91percent. Accordingly, the BOE certifies that San Mateo County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Process all supplemental assessments..... 13

RECOMMENDATION 2: Request that the board of supervisors revise the disaster relief ordinance to comply with current statutory provisions..... 13

RECOMMENDATION 3: Apply the penalty for noncompliance with the change in ownership statement (COS) request..... 15

RECOMMENDATION 4: Use the BOE-prescribed change in ownership statement. 15

RECOMMENDATION 5: Quarterly report all section 69.5 approved claims to the BOE. .. 17

RECOMMENDATION 6: Obtain building permits from the San Mateo County Department of Health Services. 17

RECOMMENDATION 7: Record all permits to discern assessable new construction. 17

RECOMMENDATION 8: Assess the possessory interest of all private users of the fairground..... 18

RECOMMENDATION 9: Obtain building permits from the San Francisco Airport Commission. 19

RECOMMENDATION 10: Require all airlines to complete Schedule B of their property statements to ensure that taxable new construction is assessed.. 19

RECOMMENDATION 11: Determine a base year value for all real property owned by a private water company. 20

RECOMMENDATION 12: Use current income in determining the restricted value of California Land Conservation Act lands..... 21

RECOMMENDATION 13: Obtain current income and production data from the property owner for assessing CLCA lands..... 21

RECOMMENDATION 14: Use animal unit months (AUM’s) in the analysis and assessment of grazing lands..... 21

RECOMMENDATION 15: Use the BOE’s equipment index and percent good factors as intended..... 23

RECOMMENDATION 16: Include business-owned aircraft and vessels in the mandatory audit program. 24

RECOMMENDATION 17: Develop a formal, nonmandatory audit program. 25

RECOMMENDATION 18: Assess private aircraft according to the guidelines prescribed in LTA 97/03..... 25

RECOMMENDATION 19: Require a current certificate of inspection by the United States Coast Guard for the section 227(c) claim. 26

RECOMMENDATION 20: Annually, determine the market value of vessels valued below \$80,000. 26

RECOMMENDATION 21: Send an annual vessel property statement to owners of vessels that cost \$100,000 or more. 26

RECOMMENDATION 22: Properly classify and assess apartment personal property. 27

RECOMMENDATION 23: Annually review the BOE’s listing of leased property to discover locally assessable property..... 27

RECOMMENDATION 24: Correctly use the *N.A.D.A. Manufactured Housing Appraisal Guide*..... 28

RECOMMENDATION 25: Annually review manufactured home assessments and enroll the lower of the factored base year value or current market value. .. 28

RECOMMENDATION 26: Revise manufactured home assessments by assessing taxable manufactured home accessories..... 28

RESULTS OF THE 1994 SURVEY

Change in Ownership

The section 63.1 parent-child exclusion from change in ownership requires written certification from both transferee and transferor. We found required signatures were not obtained in all cases. The assessor has revised his procedures and is in compliance with the signature requirement.

New Construction

We found that three permit-issuing agencies were not forwarding copies of plumbing, electrical, or mechanical work to the assessor's office. In addition the agency responsible for new well, septic tank, and underground fuel and hazardous material tank permits was not forwarding the information to the assessor. The assessor is now obtaining permits from all agencies except for those issued by the San Mateo County Department of Health Services and by the San Francisco Airport Commission. We repeat our recommendation to obtain building permits from all agencies.

In our two previous surveys (1987 and 1994), we recommended that the assessor revise the culling policy because the limits were too high. The assessor has not implemented this recommendation. We repeat this recommendation. We also recommended that the assessor increase efforts to assess all qualifying new construction. The assessor has revised his procedures in this area.

California Land Conservation Act

Although restricted values are recalculated every year, we found that the rents used in the calculation had not been revised since 1985. No change in procedure has been made in this area. We repeat this recommendation.

Manufactured Housing

We found that manufactured home accessories were not being assessed. No change in procedure has been made in this area. We repeat this recommendation.

Water Companies

We recommended that the assessor develop a factored base year value for the real property of private water companies and enroll the lower of the factored base year value or the current market value. No change in procedure has been made in this area. We repeat this recommendation.

Audit

We recommended that the assessor develop a nonmandatory audit program. The assessor has not developed such a program. We repeat this recommendation.

Business Property Statement Processing

We found that the assessor was annually re-enrolling the assessment in the direct billing program without any procedure for verification. Also, the assessor was not reviewing the Form V-600B's sent by the BOE's Valuation Division to discover assessable property. In addition, the assessor's staff was not using section 581 of the Assessors' Handbook (AH 581) as intended.

The assessor has put in place procedures to periodically review accounts in the direct billing program. However, the recommendations to review the Form V-600B's and use the AH 581 as intended have not been implemented. We repeat those recommendations.

Vessels

We recommended that the assessor perform a market study to justify the fixed amount of depreciation, require current certificates of inspection of documented vessels for the section 227 exemption on vessels used for sportfishing, and apply the correct section 227 percentage exemption. The assessor has corrected the percentage exemption procedures but has not made the other recommended changes. We repeat those recommendations.

Apartment Personalty

We found that the assessor, except for the largest apartment complexes, erroneously included the value of the apartment personal property in the improvement value. We recommended that he properly classifies and assesses apartment building personal property as personal property. This recommendation has not been implemented. We repeat this recommendation.

Escaped Assessment

We recommended that the assessor cite the proper statutory authority for escaped assessments, include the required captions on the assessment roll, and calculate the proper interest percentage for roll corrections. The assessor has corrected these deficiencies.

OVERVIEW OF SAN MATEO COUNTY

San Mateo County is located on the San Francisco Peninsula and is bordered by the City and County of San Francisco to the north, San Francisco Bay on the east, Santa Clara and Santa Cruz Counties to the south, and the Pacific Ocean on the west. The territory of San Mateo County encompasses 553 square miles (105 square miles are water area and 74 percent of the land area is open space) and includes 45 miles of coastline and beaches. San Mateo County has 20 incorporated cities and a total population of about 720,000.³

This report is the culmination of a review of the San Mateo County Assessor's operation that began with research in the assessor's office and concluded with our appraisals of sample properties from the county assessment roll. We conducted research in the assessor's office from March to August of 1999. The survey team reviewed the assessor's current operations to determine whether problems identified in the 1994 survey report have been corrected. The team also reviewed numerous other operations that represent common challenges to California assessor's offices or are of particular importance in San Mateo County. The appraisal sample, which consisted of properties selected on the basis of assessment category and assessed value, was drawn from the 1998-99 assessment roll.

San Mateo County had 102 full-time positions dedicated to the property assessment functions as of December 31, 1998.⁴ The 1998-99 fiscal year gross budget was \$6,811,035.⁵ Of this amount, \$2,220,000 was provided by the State-County Property Tax Administration Program.⁶ The total value of the section 601 roll⁷ was \$66,861,361,000⁸ as of January 1, 1998, and was based on the assessment of 235,317 roll units.⁹

As directed by section 15642 of the Government Code, this report contains summaries of the volume and types of assessment work required of the San Mateo County Assessor, the responsibilities incumbent upon the assessor, and the extent to which assessment practices are consistent with or differ from state laws and regulations. Finally, the report focuses on problems identified by our survey team and includes recommendations to help the assessor resolve those problems.

³ California Department of Finance; Demographic Research Unit; January 1, 1998 revised estimate.

⁴ LTA 99/28, 1998-99 California Assessors Offices Salary Survey.

⁵ Table A, Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office, 1998-99.

⁶ Table B, Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office, 1998-99.

⁷ The section 601 roll is the county assessment roll that reflects the assessed value of taxable property as of the January 1 lien date.

⁸ Table 10, State Board of Equalization 1997-98 Annual Report.

⁹ Table F, Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Office, 1998-99.

The following chart displays pertinent information from the 1998-99 assessment roll. Most of the information was taken from the BOE publication, *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*, July 2000.

<u>Property Types</u>	<u>Number of Assessments in County</u>	<u>Enrolled Value</u>
Residential	194,734	\$46,749,608,000
Miscellaneous (includes manufactured homes)	3,134	\$ 800,752,000
Rural	2,401	\$ 495,987,000
Commercial/Industrial	14,899	\$11,359,947,000
Total Secured Roll	215,168	\$59,406,294,000
Total Unsecured Roll (personal property except manufactured homes)	19,503	\$7,409,440,000
Total Roll	234,671	\$66,861,360,000

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office affecting both the real property and personal property assessment programs. We examined the assessor's participation in the State-County Property Tax Administration Program, training and qualifications of appraisal staff, the assessor's methods in preparing and presenting assessment appeals, the processing of low-value property assessments, the handling of disaster-damaged property assessments, and the assessor's processing of supplemental assessments.

State-County Property Tax Administration Program

Section 95.31 established the State-County Property Tax Administration Program (PTAP); this program provides state-funded loans to eligible counties for the improvement of property tax administration.¹⁰

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

Presently, the BOE's only connection with the program is that a county's performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31. The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment, and the BOE's assessment practices survey does not address the topic. In most counties, as a provision of the contract, verification of performance is provided to the State Department of Finance by the county auditor-controller, or the county's equivalent financial officer. In the paragraphs below, we briefly describe San Mateo County's participation in the PTAP.

San Mateo County participated in the PTAP during calendar years 1996, 1997, and 1998. Each year the county borrowed its maximum loan amount of about \$2,220,000. The county maintained the required 1994-95 base funding and staffing levels for the assessor's office. The San Mateo County Auditor-Controller's Office has certified to the State Department of Finance that the county met the contractual requirements for loan repayment in 1996, 1997, and 1998.

San Mateo County used PTAP funds to reduce backlogs of change-in-ownership assessments, new construction assessments, mandatory audits, decline in value reviews, and assessment appeals, primarily through increased staffing. Funds were also used to purchase new information technology hardware, software, and related staff training. All of this is designed to increase the long-term productivity of the assessor's office and other county units that are part of the property

¹⁰ AB 818, Chapter 914, Statutes of 1995.

tax system. We verified that the auditor-controller performed an audit review of the operation of the PTAP and found no problems with this program.

Training

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes without a valid certificate issued by the BOE. Section 671 further provides that all appraisers holding such a certificate must complete at least 12 hours of annual training. This requirement is increased to 24 hours of annual training if an appraiser does not hold an advanced appraiser's certificate.

The assessor's personnel in San Mateo County performing appraisals have the required BOE certificates and are current in their annual training requirements.

Assessment Appeals

The assessment appeals function is sanctioned under article XIII, section 16 of the California Constitution. Sections 1601 through 1641.1 are the statutory provisions regulating county assessment appeals boards. Government Code section 15606(c) directs the BOE to prescribe rules and regulations governing local boards of equalization. The BOE has adopted sections 301 through 326 of Title 18 of the California Code of Regulations (Property Tax Rules 301 through 326) to regulate the assessment appeal process.

The following table illustrates the assessments appeal workload for the last five years as of April 7, 1999.

Fiscal Year	No. Filed	Open	Withdrawn	Stipulated	Heard	Upheld	Reduction
1998-99	872	352	348	148	24	17	7
1997-98	1450	168	832	420	30	21	9
1996-97	3035	211	1240	1490	94	75	19
1995-96	3013	60	1347	1533	73	48	25
1994-95	2344	52	810	1375	107	43	64

The general trend has been an increase until 1996, then decreasing significantly in 1997. The decrease is mainly attributable to the recovery of the real estate market in the county where the current market value of most properties exceeds the factored base year value. With the current appreciation of the real estate market, the number of appeals is expected to continue the downward trend.

We examined 16 stipulated appeals. The stipulated values and appeals presentation were all well documented as to the reason for the value change and method of valuation. The assessor's assessment appeal program appears well administered and we have no recommendations in this area.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them. On January 9, 1994, the San Mateo County Board of Supervisors passed Ordinance 3696. This ordinance exempts only personal property not exceeding \$5,000 in full cash value. The assessor's processing of low-value personal property conforms to the ordinance.

Section 75.55(b) allows the board of supervisors to adopt an ordinance authorizing the assessor to cancel small supplemental assessments producing less than \$20 in taxes or \$50 in taxes, in the case of eligible manufactured home accessories. San Mateo County has not adopted an ordinance pursuant to the provisions of section 75.55(b).

RECOMMENDATION 1: Process all supplemental assessments.

We found that when there were multiple events in the same assessment year the assessor was canceling those supplemental assessments yielding a supplemental tax bill of \$20 or less. The assessor has no authority to cancel small supplemental assessment without an enabling ordinance. We recommend that the assessor process all supplemental assessments unless exempt by statutory provisions.

Disaster Relief

Section 170 allows a county board of supervisors to adopt an ordinance providing property tax relief to assessees whose properties have been damaged or destroyed through no fault of their own. The ordinance is also applicable to a major misfortune and calamity within a region that has been declared a state of disaster by the governor, as well as any other misfortune or calamity.

RECOMMENDATION 2: Request that the board of supervisors revise the disaster relief ordinance to comply with current statutory provisions.

The San Mateo County disaster relief ordinance adopted and amended by the board of supervisors (sections 2950 through 2957 of chapter 2 of division II of the San Mateo County Ordinance Code) essentially conforms to the requirements of section 170 except for the lien date. Section 170 was revised to account for the new lien date of January 1 (effective January 1, 1997). We found that the county ordinance has not been updated to reflect this change. We recommend that the assessor request that the board of supervisors amend the disaster relief ordinance to reflect the change to section 170.

Assessment Roll Change Procedures

The county assessor has a duty to complete the local assessment roll and deliver it to the county auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change

an assessment unless authorized by statute with the concurrence of the board of supervisors and the county counsel.

In our prior report, we recommended that the assessor revise his roll change procedures by (1) citing the proper statutory authority for escaped assessments, (2) including the required captions on the assessment roll, and (3) entering the correct interest percentage in the roll correction input sheet.

We found that the assessor's staff is now citing the correct statutory authority for escaped assessments, and the form used by the assessor's staff to transmit roll corrections to the auditor's office has been revised. The staff enters a code for the appropriate penalty and interest provisions and the auditor processes the form. This corrects the interest percentage problem. We did not find any problems concerning the required captions on the assessment roll.

REAL PROPERTY ASSESSMENT AND VALUATION

The San Mateo County Assessor's real property appraisal staff consists of 41 appraisers. The staff is responsible for the assessment of more than 215,000 residential, commercial, industrial, mineral, and agricultural parcels. The assessor's real property assessment program includes (1) revaluation of properties changing ownership, (2) valuation of assessable new construction, (3) annually reviewing properties having market values below their factored base year values, and (4) annually reviewing certain properties subject to special assessment provisions.

Change in Ownership

Change in ownership is the 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 interest. Such a property that transfers is assessed at its current market value as of the date of the change in ownership and a new base year value is established at that value.

Section 50 requires the assessor to establish a new base year value for real property upon a change in ownership of the property. Most often, the assessor learns of a change in ownership when a deed is recorded. In San Mateo County, the assessor's office reviews each recorded deed to discover changes in ownership that trigger the establishment of new base year values.

Noncompliance Penalty

Section 482(a) requires compliance within 45 days of the assessor's written request notice for change in ownership information. Noncompliance requires a penalty of either one hundred dollars (\$100) or 10 percent of the taxes applicable to the new base year value, whichever is greater, but not to exceed two thousand five hundred dollars (\$2,500).

RECOMMENDATION 3: Apply the penalty for noncompliance with the change in ownership statement (COS) request.

The assessor fails to apply penalties for noncompliance with the COS request. Currently, the assessor's change in ownership section sends a COS, which includes the penalty clause, to taxpayers. However penalties are not enforced. We recommend that the assessor apply the noncompliance penalty when the COS is not returned timely or is not filed.

Prescribed Forms

RECOMMENDATION 4: Use the BOE-prescribed change in ownership statement.

Section 480 requires the assessor to use a change in ownership statement prescribed by the BOE after consultation with the California Assessors' Association. The assessor certified that he would use the prototype change in ownership statement (BOE-502-AH). However, he is not

using the prototype but, instead, a completely rearranged form that has not been approved by the BOE.

A county cannot legally impose a penalty for failure to file or for late filing of a statement that is not a BOE prescribed form. Thus, we recommend that the assessor use the BOE prescribed form to legally impose the penalty.

Legal Entity Ownership Program

Section 64(c) provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity, as of the date of change in control. Since notices of a transfer of ownership interest in legal entities do not appear in official county records, the Legal Entity Ownership Program (LEOP) section of the BOE learns of unrecorded changes that occur by stock acquisitions through responses to questions appearing on corporate and partnership tax returns filed with the State Franchise Tax Board. LEOP forwards this information to appropriate assessors' offices.

We reviewed a number of properties on the LEOP list for San Mateo County and found no errors pertaining to identification and change in ownership enrollment. Based on our review, the assessor is processing LEOP notices properly and, therefore, capturing LEOP changes in ownership.

Parent/Child Transfer Exclusions

Section 63.1 excludes from change in ownership the purchase or transfer on or after November 6, 1986 of the principal residence and the first one million dollars of other real property between parents and children when a claim is timely filed.

In our prior survey, we found a number of approved claims without the required signatures of the transferors and transferees on the claim form. We recommended that the assessor obtain the required signatures on the claim form. The assessor has corrected this problem and new procedures are in place requiring the proper signatures.

Base Year Value Transfer Exclusions

Section 69.5 allows qualified homeowners over the age of 55 years to transfer the base-year value of their principal residence to a replacement dwelling of equal or lesser value purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed.

Subsequently, section 69.5 has been amended to apply to (1) inter-county transfers and (2) qualified applicants who are severely and permanently disabled under certain conditions. In 1998, the assessor processed 195 section 69.5 claims. Claims are reviewed by the assessor's staff, and applicants not qualifying for the exclusion are properly denied while qualified applicants are processed in a timely, consistent manner.

RECOMMENDATION 5: Quarterly report all section 69.5 approved claims to the BOE.

The assessor has not furnished the BOE his quarterly section 69.5 reports as required by section 69.5(b)(7). In order to prevent statewide duplication of claims, section 69.5(b)(7) requires assessors to report quarterly to the BOE specified information to identify all claimants who have received relief under this section. We recommend that the assessor comply with section 69.5(b)(7) by quarterly reporting all approved section 69.5 claims to the BOE.

New Construction

Discovery

Section 71 requires that the assessor reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from the building permits issued by various agencies. Other discovery methods may include business property statements, aerial photographs, news reports, and field inspections.

In our prior survey, we recommended that the assessor obtain copies of permits from all permit-issuing agencies and increase efforts to assess all qualifying new construction. The assessor concurred with our recommendation to obtain permits from all permit-issuing agencies. We now find that the assessor is receiving permits from all agencies except the San Mateo County Department of Health Services and the San Francisco Airport Commission for construction at the San Francisco International Airport. Comments concerning construction at the San Francisco International Airport are found in the possessory interest section of this report.

RECOMMENDATION 6: Obtain building permits from the San Mateo County Department of Health Services.

The department of health services issues permits for new wells, septic tank installations, and underground tanks for fuels and hazardous materials. This is an excellent source for discovering additional new construction throughout the county. We repeat our recommendation to obtain permits from all permit-issuing agencies. The assessor concurred with our recommendation to increase efforts to assess qualifying new construction. We reviewed a number of new construction appraisals and found no evidence of significant assessment problems and, therefore, we make no recommendations in this area.

Record All Permits

RECOMMENDATION 7: Record all permits to discern assessable new construction.

In our 1994 survey report, we recommended that the assessor revise the minimum value limit for culling permits to ensure that all permits are recorded in the system. We find that the assessor has not revised the culling limits and a majority of all permits are culled. Therefore we repeat the recommendation.

The assessor continues the policy of culling building permits according to his minimum value guidelines. For example, culling guidelines include additions or alterations less than \$5,000, kitchen remodeling less than \$25,000, and repair work less than \$50,000. Currently, 70 percent of all incoming permits are discarded and no data are retained on the assessor's database.

Recording all permits would aid in the timely discovery of assessable new construction indicated by an accumulation of permits for a particular property. When several permits are issued for an assessor's parcel number (APN) or to a leasehold tenant within a short period of time, appraisers would be alert to potential assessable construction.

Declines in Value

Taxable value, as defined by section 51, is the lesser of (1) a property's factored base year value (FBYV), or (2) its current market value as defined in section 110 as of lien date.

For the 1998-99 fiscal year, the assessor's staff reviewed about 90,000 residential assessments and monitored about 26,000 decline in value properties. The results were a restoration of the FBYV as taxable value to 8,500 properties and increasing the market value and resulting taxable value for 4,000 properties. Since then, the county experienced an economic recovery and many of the decline in value properties have had their FBYV restored as taxable value. The only areas in the county where property values appear to be stagnant at the time of this review are in the northern parts of the county.

The assessor has a comprehensive program to review and monitor decline in value properties. The program includes a market trend analysis by field appraisers of each sub-neighborhood.

Taxable Possessory Interests

A taxable possessory interest (PI) is a private property interest in publicly owned real property. The term "possessory interest" includes either the possession or the right to possession of real property when a tax-exempt government agency holds the fee title of that property. There are a large variety of possessory interests in San Mateo County, ranging from boat slips to various uses of the fairground and the use of the San Francisco International Airport.

RECOMMENDATION 8: Assess the possessory interest of all private users of the fairground.

The San Mateo County Fair and Exposition Center operates the fairground. The fairground is rented to groups and individuals for various uses during the year. We found a number of private uses of fairground land and buildings of sufficiently durable, beneficial, exclusive, and independent use to warrant assessment as taxable possessory interests. Although concessionaires during the county fair sign contracts for the right to use and occupy fairground facilities on a year-to-year basis, most concessionaires return for a number of years.

In addition to the county fair, the fairground is leased to private individuals and organizations for interim uses. Typical terms of such leases may be two days or less for dances, pet shows, dealer

shows, and a variety of other uses. Some leases will not qualify as taxable possessory interests because they are single-event, with no history or likelihood of recurrence.

We found that the assessor's staff has reviewed a number of county fair and interim uses at the fairground but have not assessed all users for their possessory interests. It is evident that there are a number of users of the fairground that meet the standards of continuity because of their history of recurring use.

The assessor has a practice to exempt low value PI's. However, San Mateo County's current low-value property exemption ordinance exempts only personal property assessments. Possessory interests, though assessed on the unsecured roll, are real property. While many of these are for small value, they must be assessed because they may not be excluded under the present low value ordinance.

Construction Permits

Possessory interest assessments may be comprised of both land and improvements. Value added by new construction by a lessee is assessable and must be enrolled.

We found that the assessor discovers major new construction projects at SFIA through examination of the Schedule B of the business property statements (BPS) of the airlines, review of the minutes of the meeting of the San Francisco Airport Commission, and regular on-site inspections.

RECOMMENDATION 9: Obtain building permits from the San Francisco Airport Commission.

The San Francisco Airport Commission's Facilities, Operations and Maintenance (FOM) Division is the building permit-issuing agency of the City and County of San Francisco for the SFIA. As in our 1989 survey, we still find that the assessor does not request or receive construction permits issued by this agency.

The FOM Division list permitted construction by individual tenants and in chronological order. These construction permits contain a concise description of the permitted construction. We obtained and reviewed a list of permitted new construction that spanned several decades.

We recommend that the assessor obtain this information from the FOM Division on a regular basis.

RECOMMENDATION 10: Require all airlines to complete Schedule B of their property statements to ensure that taxable new construction is assessed.

The assessor relied on the taxpayer's filings of the business property statement (BOE-571-L, Schedule B) to discover assessable new construction. This has not been very successful, especially with the largest airlines. Some of the largest airlines did not submit a Schedule B with their BPS's. Without a completed Schedule B, the assessor cannot properly assess improvements

(i.e., structure items, fixtures, land improvements, and land and land development) owned or used by the airlines. We recommend that the assessor require every airline to complete a Schedule B with its BPS.

Taxable Government-Owned Property

The California Constitution exempts from taxation those properties owned by local governments, except for those properties located outside of the local government's boundaries that were taxable when acquired. These lands are commonly referred to as "Section 11" properties because section 11 of article XIII of the California Constitution describes in part how these properties are to be assessed.

We found that the assessor is assessing Section 11 properties properly.

Water Company Property

The San Mateo County Assessor assesses the properties of three types of water companies: municipal water systems on government-owned lands (taxable under article XIII, section 11 of the California Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), and mutual water associations. Each type presents different appraisal problems and requires different approaches to valuation. We found that the assessor is correctly assessing property owned by municipal and mutual water systems.

RECOMMENDATION 11: Determine a base year value for all real property owned by a private water company.

In our prior survey we recommended that the assessor develop a base year value for the real property of a private water company and enroll the lower of the factored base year value (FBYV) or the current market value. We found that the assessor is still not developing a base year value. In reviewing the assessment of this type of property, we found only one regulated private water company. Because of the regulated income, the market value may be lower than the FBYV. However, statutory provisions require that every item of real property have a base year value and a resulting FBYV.

We therefore repeat our recommendation that the assessor develop a base year value for the real property of the private water company and enroll the lower of the FBYV or the current market value.

California Land Conservation Act Properties (CLCA)

Lands subject to a California Land Conservation Act (CLCA) contract are valued on the basis of their agricultural income-producing ability, including any compatible use income (e.g., hunting rights). They are assessed at the lowest of this restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 deal explicitly with the valuation of lands subject to CLCA contracts.

For the January 1, 1998 lien date, San Mateo County had approximately 46,225 acres (490 parcels) subject to CLCA contracts, with a total assessed land value of \$22,409,013. This represents less than 0.04 percent of the total 1998-99 assessment roll. Presently there are no cancellations pending and only one parcel currently in a nonrenewable status. We reviewed five parcels whose contracts expired for roll year 1997-98 and found no discrepancies in their valuation. Since our last survey there has been little change in restricted acreage (1993-94 CLCA acreage of 46,500 and 1997-98 of 46,225).

Income Data

RECOMMENDATION 12: Use current income in determining the restricted value of California Land Conservation Act lands.

We found that the assessor is still using the same income data that has been used since 1985. Failure to use current rental information may result in an inaccurate estimate of restricted value. We repeat our recommendation from the previous survey to use current rents in calculating the restricted value.

Questionnaires

RECOMMENDATION 13: Obtain current income and production data from the property owner for assessing CLCA lands.

The assessor's staff relies solely on the crop reports from the San Mateo County Department of Agricultural for production estimates. However, crop reports should only serve as a supplement to the taxpayer's first-hand farming knowledge of an individual parcel (e.g., production history, carrying capacity).

CLCA questionnaires have not been used since 1985. Obtaining actual income and productive data would create a more reliable database for processing the income in calculating both the restricted value and current market value. We recommend that the assessor mail questionnaires to every owner of CLCA property to obtain current information.

Animal Unit Months

RECOMMENDATION 14: Use animal unit months (AUM's) in the analysis and assessment of grazing lands.

Currently, the assessor's staff uses a per-acre rent indicator to calculate CLCA values. While applying a rent per acre is an appropriate method for many types of CLCA land, use of this indicator requires a high degree of comparability between properties. The various capabilities and qualities of most grazing land (e.g., irrigated, open, steep, brushy, and rocky) limits the reliability of the technique for valuation of that property type.

Animal unit months (AUM's) is the most flexible measuring device for estimating carrying capacity and thus, productivity for grazing lands. We recommend the assessor use value indicators based on AUM's for grazing lands.

Valuation of Commercial and Income-Producing Properties

The commercial and industrial section uses three approaches to value. For major properties, the capitalized income approach is the most frequently used valuation method. Yield rates are derived using band of investment and market sales are used to derive overall rates. Small, owner-operated properties, under 2000 square feet, and smaller industrial properties are valued using the sales comparison approach. The main sources of the construction cost information are Marshall Valuation Service and historical construction cost reported by the taxpayer.

We reviewed a number of commercial and industrial property records, including large shopping centers and hotels. We found the assessor's practices to be effective and conforming to accepted valuation principles and procedures.

Mineral-Producing Properties

San Mateo County is not a large producer of petroleum or minerals. The resulting assessments make up a very small part of the assessment roll. San Mateo County has three active mineral properties on the tax roll with a combined assessed value of less than \$1.0 million.

The county has a total of 18 oil and gas-producing wells. The wells have very limited production, consequently the current total assessed value is less than \$80,000.

A review of the assessor's records indicates that the assessor is conforming to established principles in his mineral property assessment program.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The San Mateo County Assessor's Office includes 12 auditor-appraisers (including three funded by PTAP funds) and seven office assistants who are annually responsible for about 450 audits, processing more than 20,000 commercial, industrial, and agricultural business property statements, and appraising approximately 400 general aircraft and 4,500 pleasure boats.

Property Statement Processing

Section 441 requires each person owning taxable personal property (except manufactured homes) that cost \$100,000 or more, or when requested by the assessor, to file a signed property statement annually with the assessor. Annual property statements form the backbone of the personal property assessment program. These statements cover a wide variety of property types, including businesses, boats, and aircraft.

We reviewed the assessor's property statement processing procedures and a large sample of property statements. We found no problems in the processing of property statements and accordingly make no recommendations.

In our prior report, we recommended that the assessor revise the direct billing program to either periodically conduct physical inspections of businesses or request that taxpayers complete property statements. The assessor concurred with this recommendation and has implemented the recommendation. In our current review, we did not find any new problems with the direct billing program.

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

RECOMMENDATION 15: Use the BOE's equipment index and percent good factors as intended.

In our prior report, we recommended that the assessor use the factors in the AH 581 as intended. The index factors that are used by the auditors are computed on the basis of the information provided in the AH 581, but several categories are averages of the individual information contained in the AH 581. In addition, minimum valuation factors of 20 percent or 25 percent are applied rather than the factors recommended in the AH 581. There was no market study completed by the assessor to support the averaging of the index factors or the use of the minimum valuation factors.

The assessor's staff also develops valuation factors for computers using different minimum valuation factors than those recommended by the BOE in Letter To Assessor No. 97/18 (LTA 97/18) for the 1998 lien date. The assessor uses 5 percent as the valuation factor, while 2 percent is recommended in the LTA 97/18. Therefore, we repeat our prior recommendation that the assessor use the factors in the AH 581 and other BOE guidelines as intended.

Audit Program

Mandatory Audits

Section 469 requires an audit of the books and records of businesses when locally assessable trade fixtures and tangible personal property have a full cash value of \$300,000 or more. Property Tax Rule 192 clarifies the statute by limiting the mandatory audits to those instances when the threshold is reached for four consecutive years.

The mandatory audit program is one of the assessor's main programs to verify the reporting on the large business property accounts and to prevent potentially large reporting errors. However, the farther removed the audit is from the year being audited, the more difficult it is to obtain the necessary records.

The personal property division has 66 unfinished audits from the previous years, with an average mandatory audit workload of 350 audits per year. Of these, only 14 are two years and older. In light of the large audit workload, we believe that the mandatory audit program is current and urge the assessor to quickly complete the small number of outstanding audits.

RECOMMENDATION 16: Include business-owned aircraft and vessels in the mandatory audit program.

We found that the assessor does not group aircraft or vessels owned by a business with the other tangible personal property of the business in the county. They are treated as separate accounts and are not linked together. In addition, when the taxable value exceeds \$300,000, the aircraft or vessel is not included in the mandatory audit list.

Property Tax Rule 192 provides that when determining the threshold for a mandatory audit, the assessor should include the taxable value of locally assessable fixtures and the full cash value of locally assessable business personal property of the taxpayer in the county. Thus, the value of all business tangible personal property and fixtures of a taxpayer in the county, including the value of aircraft and vessels, should be grouped together. In addition, if the business-owned aircraft and/or vessels are the sole property of the taxpayer in the county and exceed the mandatory audit limit, then the assessor should include the account on the mandatory audit list.

Nonmandatory Audits

RECOMMENDATION 17: Develop a formal, nonmandatory audit program.

In our prior report, we recommended that the assessor develop a formal nonmandatory audit program. We found that the assessor's staff is completing about 50-100 nonmandatory audits; however, there is still no formal, nonmandatory audit program. The program should include guidelines for selection of accounts to audit. We still believe that a formal, nonmandatory audit program is important to maintain the integrity of the data reported on the business property statements. We repeat this recommendation.

Valuation of Other Taxable Personal Property

General Aircraft

On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. As stated in LTA 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date.

RECOMMENDATION 18: Assess private aircraft according to the guidelines prescribed in LTA 97/03.

The assessor's current practice is to use the *Aircraft Bluebook Digest* to determine average marketable value. The appraiser then applies only an adjustment for airframe and engine hours. The valuation of the aircraft is not adjusted by the 10 percent reduction as directed by the BOE. The assessor has completed no studies to support this failure to make the condition adjustment. Additionally, aircraft appraisals do not include adjustments for additional or special equipment. We recommend that the assessor follow the guidelines provided in LTA 97/03.

Vessels

The personal property staff valued 4,526 pleasure vessels and 128 documented vessels for the 1998-99 year. The count has decreased from the 1994 survey by over 3,700 vessels. This reduction is primarily caused by the amendment to the low-value ordinance that increased the value threshold from \$2,000 to \$5,000.

In our prior report, we recommended that the assessor revise his vessel procedures by (1) performing a market study to support the annual fixed depreciation amount, (2) requiring current certificates of inspection for documented vessels as provided in section 227(c), and (3) applying the correct percentage exemption to documented vessels as provided in section 227. We found that the assessor is only applying the correct percentage exemption. He has not incorporated the other two changes in his vessel procedures.

RECOMMENDATION 19: Require a current certificate of inspection by the United States Coast Guard for the section 227(c) claim.

San Mateo County has 128 vessels that qualify for the 4 percent assessment status of section 227. Section 227(c) applies to sportfishing vessels carrying or transporting seven or more people for commercial passenger fishing. To qualify for the section 227(c) exemption, a vessel must hold a current certificate of inspection by the U.S. Coast Guard.

The assessor requires certificates of inspection only for the initial exemption claim. The assessor's staff does not require the taxpayer to submit a current certificate of inspection with each subsequent claim.

We recommend that the assessor require a current certificate of inspection with the annual exemption affidavit to qualify for the section 227(c) exemption.

RECOMMENDATION 20: Annually, determine the market value of vessels valued below \$80,000.

The assessor uses a 5 percent annual depreciation for all vessels valued below \$80,000. This depreciation amount was established by a 1988 market study. Because of defective computer software, no depreciation was applied to such vessels for the 1998 and 1997 lien dates. This problem has been corrected in the software and the 5 percent depreciation is being applied for the 1999 lien date. However, there is no current study supporting an annual 5 percent depreciation as a determinant of market value. We repeat our prior recommendation that the assessor conduct a current market study to determine the appropriate depreciation amount for vessels.

RECOMMENDATION 21: Send an annual vessel property statement to owners of vessels that cost \$100,000 or more.

Vessel property statements are only sent to vessel owners when vessels are initially discovered and added to the roll. Subsequent appraisals are based on this information without consideration of additional equipment and upgrades. This is fairly common for more expensive vessels after initial purchase. A vessel property statement mailed on an annual basis will help ensure that updated information is incorporated in the final value determination. We recommend that the assessor mail annual vessel property statements to owners of vessels that cost \$100,000 or more.

Apartment Personality

Landlord-owned personal property in apartment complexes is assessable and reportable on the annual *Apartment House Property Statement* (BOE-571-R). Such personal property includes, but is not limited to, refrigerators, freestanding kitchen stoves, exercise equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, and common area furniture.

RECOMMENDATION 22: Properly classify and assess apartment personal property.

In our 1994 survey, we recommended that the assessor assess personal property separate from the real property. There are over 4,200 apartment buildings in San Mateo County. Of these, only 25 apartment buildings have personal property assessed on the roll. It is the assessor's policy to allocate the sale price of an apartment property only between land and improvements. In other words, the improvement value includes the value of all personal property. Only in the largest apartment complexes is the personal property separately assessed.

Including personal property in the improvement value overstates the improvement value with a corresponding overstatement of the supplemental tax (supplemental taxes apply only to land and improvements, not to personal property). Also, the annual taxes are overstated because of a difference between fair market value and factored base year value of the personal property included in the improvement value. Personal property is not subject to the annual inflation factor (normally 2 percent per year) that applies to land and improvements. We repeat our recommendation that the assessor classify and assess the personal property of apartment complexes as personal property.

Leased Equipment

The Valuation Division of the BOE assesses the property owned by certain public utilities and railroads. As part of this function, the BOE supplies the county assessors with lists of locally assessable leased equipment in the possession of these entities on a prescribed form (BOE-600-B). It is then each county assessor's responsibility to process the data provided and assess the equipment, as appropriate.

RECOMMENDATION 23: Annually review the BOE's listing of leased property to discover locally assessable property.

In the previous survey, we recommended that the assessor annually review the listing of leased property provided by the BOE to discover locally assessable property. In our current fieldwork, the assessor stated his concurrence with our prior recommendation. However, his staff does not perform this task. We repeat this recommendation.

Manufactured Homes

A manufactured home becomes subject to local property taxation when first sold new on or after July 1, 1980 or upon the owner's request for conversion from vehicle license fee (VLF) to local property taxation. There are approximately 930 manufactured homes currently on the assessment roll in San Mateo County with a total assessment of \$17.6 million. The majority of the manufactured homes are located in the county's 26 manufactured home parks.

RECOMMENDATION 24: Correctly use the *N.A.D.A. Manufactured Housing Appraisal Guide*.

Currently the assessor's staff exclusively uses the *N.A.D.A. Manufactured Housing Appraisal Guide (NADA)* to value manufactured homes. In our review of manufactured home appraisals, we found that the appraisers failed to use the correct state location adjustment. They use a fixed state location adjustment of 1.17, which is preprinted on their worksheet. However, this adjustment changes annually and the changes are reflected in the updated NADA editions. We also found that when reappraisals were performed due to change in ownership, the most current edition of the NADA was used regardless of the transfer date.

We recommend that the assessor use the correct state location adjustment from the NADA and use the edition of the NADA that correctly corresponds to the valuation date.

RECOMMENDATION 25: Annually review manufactured home assessments and enroll the lower of the factored base year value or current market value.

The assessor establishes a base year value for manufactured homes when there is a change in ownership or new construction. In subsequent years, the assessor's policy is to enroll the factored base year value. The last review for a decline in value of manufactured homes was performed for tax assessment year 1992-93.

Like most personal property, manufactured homes generally decline in value over time. The assessor has no procedures in place to annually review manufactured home assessments in order to enroll the lower of the factored base year value or current market value as the taxable value. We recommend that the assessor develop procedures to annually review manufactured home assessments to ensure that the taxable value of all manufactured homes is the lower of current market value or factored base year value.

RECOMMENDATION 26: Revise manufactured home assessments by assessing taxable manufactured home accessories.

Section 5803 defines "full cash value" to include all accessories installed on manufactured homes subject to local property taxation. Our previous survey report recommended that the assessor identify and assess taxable manufactured home accessories. During our fieldwork, we found that the assessor failed to implement this recommendation. We repeat this recommendation.

APPENDICES

A: County Property Tax Division Survey Group

San Mateo County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leaders:

Hadley Alger

Senior Specialist Property Appraiser

Carlos Zaragoza

Senior Specialist Property Appraiser

Survey Team:

Rudy G. Bischof

Senior Specialist Property Appraiser

Ken Dal Busco

Associate Property Appraiser,

Retired Annuitant

Robert Donay

Associate Property Appraiser

Rodney Miyatake

Associate Property Appraiser

Beverly Morrison

Associate Property Auditor Appraiser

Thomas Robinson

Associate Property Appraiser

Raymond Tsang

Associate Property Auditor Appraiser

Ancil Aydelott

Associate Property Auditor Appraiser

Tina Krause

Assistant Property Appraiser

Delia Garcia

Tax Technician II

Rick Kozman

Tax Technician II

B: The Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹¹ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

The assessment sampling program is conducted by the BOE's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹²
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

¹¹ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

¹² The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the

county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

- c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C: Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the

surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

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

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

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations**Rule 370. Random selection of counties for representative sampling.**

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

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, “significant assessment problems” means procedure(s) in one or more areas of an assessor’s assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board’s appraisals and the assessor’s values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor’s entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, “areas of an assessor’s assessment operation” means, but is not limited to, an assessor’s programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of “significant assessment problems,” as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor’s practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



Warren Slocum

Chief Elections Officer &
Assessor-County Clerk-Recorder

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January 31, 2001

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

RECEIVED

FEB 05 2001

County Property Tax Division
State Board of Equalization

Dear Mr. Knudsen:

Pursuant to Section 15645 of the California Government Code, I enclosed our response to the recommendations included in the State Board of Equalization Assessment Practices Survey of San Mateo County. Please incorporate my response into your final Assessment Practices Survey Report.

I would like to express our appreciation for the professional and courteous manner in which the survey team conducted their business. Their constructive comments regarding our product is appreciated.

More importantly, I would like to acknowledge the staff of the San Mateo County Assessor's Office for their hard work, professionalism, and commitment to serving San Mateo County and the San Mateo County taxpayer. Your survey indicated that San Mateo County's ratio came in at 99.4%, which reflects the exceptionally effective work of our team. Their continuing dedication to improving our performance is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "Warren Slocum".

Warren Slocum
Assessor-County Clerk-Recorder

Enclosure

County of San Mateo
Office of the Assessor-County Clerk-Recorder

Response to State Board of Equalization 2001 Assessment Practices Survey

RECOMMENDATION 1: Process all supplemental assessments.

We agree. The few instances identified by SBE staff did not reflect our policy and these were isolated incidents. Our newly installed assessment system calculates and processes all supplemental assessments and the County Tax Collector makes the tax cancellation determination based upon his authority.

RECOMMENDATION 2: Request that the Board of Supervisors revise the disaster relief ordinance to comply with current statutory provisions.

We agree.

RECOMMENDATION 3: Apply the penalty for non-compliance with the change in ownership statement (COS) request.

We disagree. As the results of this survey show and, as has been the case since the change in ownership statement legislation was enacted in the early 1980's, we accurately assess property upon a change in ownership. We do not believe that implementation of a complex penalty program would add to the accuracy or efficiency of our work.

RECOMMENDATION 4: Use the BOE-prescribed change in ownership statement.

We disagree. Our forms are specific to the type of change in ownership that has taken place. We believe that these, more specific questionnaires, produce more reliable results.

RECOMMENDATION 5: Quarterly report all section 69.5 approved claims to the BOE.

We agree.

RECOMMENDATION 6: Obtain building permits from the San Mateo County Department of Health Services.

We agree.

RECOMMENDATION 7: Record all permits to discern assessable new construction.

We agree. As we mentioned in our 1993 survey, this policy is used solely for prioritization of workload. We have implemented R & T Code section 72 (c), which provides us with copies of building plans. All plans are reviewed by the responsible appraiser, and appropriate new construction assessments are discovered using this, additional and more complete, information. Additionally, our appraisal staff works closely with the building and planning jurisdictions in their area of responsibility and compare their permit listings with that of the local jurisdiction. As we continue the implementation of our new secured assessment system it will become cost effective to electronically transfer building permit data into our assessment system.

RECOMMENDATION 8: Assess the possessory interest of all private users of the fairground.

The annual tracking of the numerous small time promoters who constantly change their ownership entities is a time consuming task. It is not the county policy to "exempt" these possessory interests, but rather using prudent management discretion for the efficient use of available resources, review them with priority given to their fiscal effect. Historically, these low valued assessments have been controversial, difficult to defend before the Assessment Appeals Board, and are problematic for tax collection from the transient promoters.

We will continue to review these small assessments as staffing permits.

RECOMMENDATION 9: Obtain building permits from the San Francisco Airport Commission.

We agree.

RECOMMENDATION 10: Require all airlines to complete Schedule B of their property statements to ensure that taxable new construction is assessed.

We agree.

RECOMMENDATION 11: Determine a base year value for all real property owned by a private water company.

As we responded in our 1993 survey, we disagree with this recommendation and the finding of the SBE audit. For the private water company in question we have established base year values for the land and improvements located on fee parcels.

For the right of way parcels, which represent the water distribution improvements (typically the actual water pipe) within a designated tax code area, the assessment is recalculated annually to reflect the additions and retirements of these improvements. Supplemental assessments are issued for increases in the value of the improvements in each code area. It is not practical to identify each specific piece of "pipe" and assign them separate base values.

This methodology is consistent with the nature of this special property type, results in the supplemental assessment of the company's construction program and conforms to procedures agreed upon with other counties where this water company is located.

RECOMMENDATION 12: Use current income in determining the restricted value of California Land Conservation Act lands.

We agree and will implement as staffing permits.

RECOMMENDATION 13: Obtain current income and production data from the property owner for assessing CLCA lands.

We agree that the current economic income should be determined for the CLCA lands that are actually productive, operating agricultural property. Much of the property under CLCA contract is not actually utilized for agricultural purposes. The majority of the CLCA land is non-productive acreage used as open space.

The issue is one of properly classifying the actual use of the CLCA property. We will better identify the actual productive operating agricultural properties, current land use classifications and income data as staffing permits.

RECOMMENDATION 14: Use animal unit months (AUMs) in the analysis and assessment of grazing lands.

We agree that the AUM method is the best method for the valuation of grazing land. However, consistent with our response to Recommendations #12 & #13 there is very little land under CLCA contract that is actually used as grazing land. Historical over-

grazing of natural pasture has left land stability problems in San Mateo County and therefore the actual use of these lands is for open space.

Given the limited nature of this use, this analysis will be implemented as staffing permits.

RECOMMENDATION 15: Use the BOE's equipment index and percent good factors as intended.

We disagree. Taxpayers report mixed types of equipment in the equipment column on Schedule "A" of their Business Property Statement. This information may or may not be sufficiently detailed to accurately determine the type of equipment reported. We do not see the benefits outweighing the costs of implementing this recommendation. Our current method of using composite tables produces 30 factor tables to value all commercial, industrial, agricultural and other personal property in the county. Implementing this recommendation would create numerous additional factoring tables, and the resulting complexity in the processing of statements. The additional tables could contribute to errors, be more time consuming and produce a minimum difference to the final result.

RECOMMENDATION 16: Include business-owned aircraft and vessels in the mandatory audit program.

We agree.

RECOMMENDATION 17: Develop a formal, non-mandatory audit program.

We agree and will implement as staffing permits.

RECOMMENDATION 18: Assess private aircraft according to the guidelines prescribed in LTA 97/03.

We recognize a minor flaw in the appraisal of private aircraft, however, our procedures produce a value difference of less than 2% from the values recommended by the BOE. We follow the recommendation as far as using the Aircraft Blue Book Price Digest value. The BOE recommends we further reduce that amount by 10%, with no justification, and then add back a sales tax component of 8.25%. We do not see the benefit of this added work, which would produce minimum value differences.

RECOMMENDATION 19: Require a current certificate of inspection by the United States Coast Guard for the section 227(c) claim.

We agree.

RECOMMENDATION 20: Annually, determine the market value of vessels valued below \$80,000.

Our procedure of annually depreciating boat values from their purchase price provides reasonable values and is a procedure that is cost effective to administer. We believe that the value difference between the SBE method and our method would not justify the added cost to administer this program.

RECOMMENDATION 21: Send an annual vessel property statement to owners of vessels that cost \$100,000 or more.

We agree.

RECOMMENDATION 22: Properly classify and assess apartment personal property.

We do not see this recommendation as cost beneficial and, in our opinion, would tend to cause additional administrative burden and confusion for the owners of small apartment buildings. The actual value of personal property included in the sale of small apartments is typically *de minimus*. We currently send 44 property statements to the largest county apartment owners. We see little value in annually classifying, tracking and valuing personal property in our many small apartment buildings.

RECOMMENDATION 23: Annually review the BOE's listing of leased property to discover locally assessable property.

We agree.

RECOMMENDATION 24: Correctly use the *N.A.D.A. Manufactured Housing Appraisal Guide*.

We agree and subsequent to the year of the SBE audit we began using the NADA automated valuation system with the correct location and time adjustments.

RECOMMENDATION 25: Annually review manufactured home assessments and enroll the lower of the factored base year value or current market value.

We agree. With our new assessment system we have begun to update all the property characteristics necessary for a regular annual automated review of all mobile home assessments for decline in value.

RECOMMENDATION 26: Revise manufactured home assessments by assessing taxable manufactured home accessories.

We agree that all taxable mobile home accessories that add measurable value should be assessed. We include all accessories in the valuation whenever a new base value is calculated. Additionally, we enroll added unit size or actual structures upon discovery. However, it is difficult to measure and justify any accurate increase in market value attributable to a mobile home for low value alterations such as awnings, patio covers and skirts.