

# **SANTA BARBARA COUNTY ASSESSMENT PRACTICES SURVEY**

**JUNE 2009**

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June 30, 2009

TO COUNTY ASSESSORS:

RAMON J. HIRSIG  
Executive Director

No. 2009/025

SANTA BARBARA COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the Santa Barbara County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Joseph E. Holland, Santa Barbara County Assessor-Clerk-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, the State Legislature, the Santa Barbara County Board of Supervisors, the Grand Jury, and the Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from July 2007 through August 2007. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Holland and his staff gave their complete cooperation during the survey. We gratefully acknowledge the assessor's and his staff's patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:ps  
Enclosure

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## **INTRODUCTION**

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) the practices and procedures of every county assessor's office. This report reflects the BOE's findings in its current survey of the Santa Barbara County Assessor-Clerk-Recorder's Office.<sup>1</sup>

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Senate and Assembly, and the Santa Barbara County Board of Supervisors, the Grand Jury, and the 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 Joseph E. Holland, Santa Barbara County Assessor-Clerk-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) 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.

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<sup>1</sup> This report covers only the assessment functions of his office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

In addition, pursuant to Revenue and Taxation Code<sup>2</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination of the assessor's assessment operations to determine whether "significant assessment problems" exist, as defined by Property Tax Rule 371.<sup>3</sup>

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

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<sup>2</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

<sup>3</sup> All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

## EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

The assessor manages many portions of the administrative programs effectively, which include budget and staffing, appraiser certification, assessment appeals, assessment roll changes, and the low-value property exemption program. However, we found that the assessor still does not utilize fire reports from local fire departments for properties damaged or destroyed by misfortune or calamity. We also found that in the area of exemptions, the assessor does not conduct field inspections for newly filed religious exemption claims and does not regularly perform field inspections for new welfare exemption claims.

In the area of real property assessment, the assessor has effective programs for assessing declines in value, taxable government-owned property, and pipeline rights-of-way.

Of the recommendations made, the areas of most concern are in the assessor's new construction program. Specifically, we note the assessor does not receive all permits issued by the various permit-issuing agencies.

The personal property program is well managed overall. In particular, the assessor has excellent programs for the discovery of leased equipment, and the discovery and valuation of aircraft. Still, we make a number of recommendations to improve the assessor's personal property program. The most significant of these recommendations are that the assessor should: (1) apply late-filing penalties to secured business property accounts when a taxpayer fails to file an annual property statement; (2) use supportable minimum percent good factors in valuing business equipment; and (3) include sales or use tax as a component of market value when appraising vessels.

We found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Santa Barbara County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Santa Barbara County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling.

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

- RECOMMENDATION 1:** Obtain fire reports from local fire departments to discover property damaged or destroyed by misfortune or calamity. ....11
- RECOMMENDATION 2:** Improve the exemption program by: (1) conducting field inspections for newly filed religious exemption claims, and (2) performing field inspections for new welfare exemption claims. ....15

**RECOMMENDATION 3:** Reappraise all properties exceeding the \$1 million exclusion provided in section 63.1.....19

**RECOMMENDATION 4:** Revise procedures for processing building permits by requiring permit-issuing agencies to send all permits to the assessor. ....21

**RECOMMENDATION 5:** Issue supplemental assessments for structural leasehold improvements and taxable possessory interests assessed on the unsecured roll.....23

**RECOMMENDATION 6:** Improve the California Land Conservation Act assessment program by: (1) properly estimating the income stream to living improvements, and (2) valuing unrestricted improvements at the lower of the factored base year value or current market value...25

**RECOMMENDATION 7:** Improve the taxable possessory interest program by: (1) recognizing lessor expenses when valuing taxable possessory interests by the income approach, (2) documenting taxable possessory interest appraisals, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.....27

**RECOMMENDATION 8:** Improve the water company assessment program by obtaining articles of incorporation and other relevant property tax documents from each mutual water company. ....30

**RECOMMENDATION 9:** Improve the assessment of mining property by: (1) using market royalty rates when calculating the current market value, and (2) recognizing reductions in the value of reserves according to Rule 469(e)(1)(B). ....31

**RECOMMENDATION 10:** Apply late-filing penalties to secured business property accounts pursuant to section 463. ....37

**RECOMMENDATION 11:** Improve the business property valuation program by: (1) using supportable minimum percent good factors, and (2) properly assessing personal property in apartments.....38

**RECOMMENDATION 12:** Periodically review manufactured home assessments for declines in value.....41

**RECOMMENDATION 13:** Improve vessel processing procedures by: (1) requiring vessel owners to file annual vessel property statements for vessels costing \$100,000 or more, and (2) including sales or use tax as a component of market value when appraising vessels.....44

## OVERVIEW OF SANTA BARBARA COUNTY

Santa Barbara County is located approximately 100 miles northwest of Los Angeles and 300 miles south of San Francisco. The county occupies about 2,774 square miles, one-third of which is located in the Los Padres National Forest. Santa Barbara County is bordered on the west and south by the Pacific Ocean, and has 110 miles of coastline.

Santa Barbara County was established by an act of the State Legislature on February 18, 1850. As of January 1, 2006, the California Department of Finance estimated the population of Santa Barbara County to be about 422,000, with eight incorporated cities: Buellton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria, and Solvang.

The following table displays information pertinent to the 2007-08 assessment roll as provided by the assessor:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
<b>Secured Roll</b>	Residential	101,215	\$42,107,894,594
	Oil-Gas-Mineral	365	\$746,828,284
	Commercial/Industrial	10,133	\$9,516,751,401
	Rural	7,848	\$4,269,214,376
	Manufactured Homes	7,617	\$187,250,052
	Possessory Interests	151	\$8,888,339
	<b>Total Secured</b>	127,329	\$56,836,827,046
<b>Unsecured Roll</b>	Personal Property & Fixtures	16,183	\$2,804,903,706
	<b>Total Assessment Roll</b>	143,512	\$59,641,730,752

The next table illustrates the growth in assessed values for recent years as reported in the BOE's annual reports:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2007-08	\$59,641,730,752	7.3%	9.6%
2006-07	\$55,525,857,976	10.3%	12.3%
2005-06	\$50,441,622,281	10.5%	11.1%
2004-05	\$45,615,655,297	8.6%	8.3%
2003-04	\$42,043,155,175	N/A	N/A

## **ADMINISTRATION**

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

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

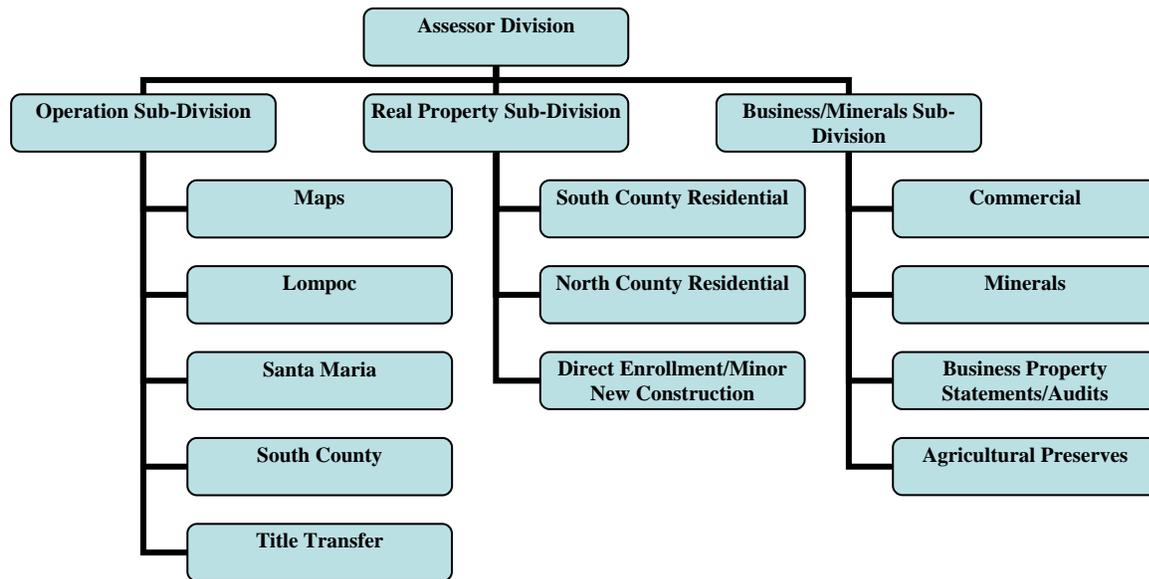
To enable the assessor to perform his duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so that the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain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

The following table shows the budget levels over recent fiscal years:

<b>FISCAL YEAR</b>	<b>GROSS BUDGET</b>	<b>ANNUAL INCREASE</b>	<b>PERMANENT STAFF</b>
2006-07	\$7,887,480	8.42%	82
2005-06	\$7,274,812	9.53%	82
2004-05	\$6,086,041	4.75%	68
2003-04	\$5,809,844	3.76%	70
2002-03	\$5,599,119		68

The two major units performing the duties of the assessor's office are the Real Property Sub-Division and the Business/Mineral Sub-Division. The Real Property Sub-Division is headed by a chief appraiser assessor-recorder and assisted by an appraiser division manager. The Business/Mineral Sub-Division is headed by a chief appraiser and assisted by an appraiser division manager.

Here is an organization chart for the assessment function of the office:



**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. We found that the assessor and his staff possess the required certificates; there are a total of 38 certified appraisers on staff, of which 26 hold advanced certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d).

The assessor does not use contract appraisers, except for a consultant who assists in the appeals of petroleum properties. The consultant used for petroleum appeals holds a valid appraisal certificate issued by the BOE.

**Staff Property Procedures**

Each fiscal year, the assessor requires all staff certified to perform appraisals or audits to complete and sign a *Statement of Financial Interest*. The statement requests information regarding employee ownership in any corporation.

The assessor does not currently require employees to provide information about their ownership interests in any real or business property within Santa Barbara County. The assessor becomes aware of employee-owned property either from voluntary disclosure by the employee or name recognition from permits and deeds.

Though the assessor does not have formal policies or procedures to provide guidance in the valuation of employee-owned property, employees are not allowed to value property that they own in Santa Barbara County. Appraisals of employee-owned properties are handled in the same manner as all other real property. The appraiser for the geographical area in which the property is located is responsible for its valuation, unless he or she is the owner, in which case the property

is reassigned to another appraiser. When the appraisal of an employee-owned property is completed, it is reviewed by the assessment supervisor before it is enrolled. This ensures that potential conflicts of interest are avoided in the assessment of employee-owned property. We reviewed a number of employee-owned property appraisal files and found no problems with their valuation.

### ***Assessment Appeals***

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

Santa Barbara County Ordinance No. 4285 provides for the creation of the county's assessment appeals board (AAB) and defines its rules. Santa Barbara County has two AABs, each consisting of five members alternating on a three-member panel. The AABs are appointed by the board of supervisors. The county does not have hearing officers. Pursuant to section 1624.02, all members complete required training when appointed to the AAB.

The regular filing period for appeals in Santa Barbara County is July 2<sup>nd</sup> through November 30<sup>th</sup>. Santa Barbara County typically conducts appeals hearings on the last Thursday of each month. The majority of appeals involve valuation issues of business, commercial, and industrial properties. No appeal in the last five years has gone unresolved for more than two years.

The following table illustrates the assessment appeals workload for recent years:

<b>ASSESSMENT ROLL</b>	<b>2006-07</b>	<b>2005-06</b>	<b>2004-05</b>	<b>2003-04</b>	<b>2002-03</b>
Appeals Workload					
Appeals Filed	194	165	39	493	501
Appeals Carried Over	49	70	255	113	21
<b>Total</b>	<b>243</b>	<b>235</b>	<b>294</b>	<b>606</b>	<b>522</b>
Resolution:					
Withdrawn	98	104	152	201	306
Stipulation	25	66	59	104	60
Appeals Reduced	5	4	0	9	1
Appeals Upheld	0	1	1	10	6
Other Determination	0	11	12	27	36
<b>Total Resolved</b>	<b>128</b>	<b>186</b>	<b>224</b>	<b>351</b>	<b>409</b>
To Be Carried Over	115	49	70	255	113

The clerk of the AAB is responsible for providing the public with applications for changed assessment. Applications can be obtained at the board of supervisors' office or through the county's website. The county's website also provides instructions on how to file and prepare for an assessment appeals hearing. No fee is charged to file an appeal. The clerk of the AAB receives the application, stamps it with the date and time, reviews it for completeness and timely filing, provides a copy to the assessor, and schedules a hearing. The clerk of the AAB also enters pertinent information regarding the appeal into a database, which is shared with the assessor's office.

The appropriate division manager in the assessor's office receives a copy of each appeal from the clerk of the AAB. The division manager reviews the appeal before assigning it to a supervisor, who then assigns the appeal to the appraiser responsible for the geographical area of the parcel at issue. Each appraiser is responsible for preparing and presenting his or her own appeal. Depending on the complexity of the appeals, typically a supervisor and a district manager may attend each hearing. The assessor also encourages legal counsel to be present at each hearing to address legal questions the AAB may have.

Once an appeal has been filed, the assigned appraiser attempts to contact each applicant prior to the hearing to discuss the appeal. If an agreement is reached or a mistake is found, the applicant may withdraw the appeal, a roll correction may be processed or a stipulation may be created.

If an applicant decides to withdraw an appeal, the applicant is asked to send the county clerk a letter confirming the withdrawal. For stipulations, the assessor typically creates the stipulation outlining the details of the agreement. Both parties sign the stipulation. The county clerk processes withdrawals, and the assessment appeals board reviews and approves stipulations. If

the applicant and the assessor cannot reach an agreement, the appeals process continues, and a hearing takes place.

We reviewed several records involving assessment appeals and found them to be well documented and complete. We also reviewed copies of appeals packets prepared and presented by appraisers from prior hearings; the packets were well organized.

Overall, the assessor's appeals program is well administered.

### ***Disaster Relief***

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

To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity; the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage of value reductions in current market value and reduce the assessed values by those percentages. However, the amount of the reduction shall not exceed the actual loss.

The Santa Barbara County Board of Supervisors enacted Ordinance No. 4336 on November 20, 1998. The ordinance grants the assessor the authority to initiate disaster relief reassessment without an application from the assessee when it is determined that taxable property was damaged or destroyed. The assessor uses this authority to initiate reassessments in conjunction with the disaster relief procedures.

Misfortunes or calamities are discovered through reviewing building permits and newspaper articles, field investigation, and taxpayer notification. We reviewed records of properties suffering misfortune or calamity and found that staff ensures the property owners are eligible for disaster relief, thoroughly documents the applications and property files, and processes claims properly. In addition, we found disaster relief is provided to owners of manufactured homes destroyed in a Governor-declared disaster.

The following table shows the number of claims processed by the assessor in the last five years:

<b>ROLL YEAR</b>	<b>CLAIMS FILED</b>
2006-07	26
2005-06	21
2004-05	12
2003-04	12
2002-03	8

In our 2004 survey, we recommended that the assessor obtain fire reports from local fire departments to discover property damaged or destroyed by misfortune or calamity. We found the assessor still fails to obtain fire reports from local fire departments; therefore, this recommendation is repeated below.

**RECOMMENDATION 1:** Obtain fire reports from local fire departments to discover property damaged or destroyed by misfortune or calamity.

We found that the assessor still does not obtain fire reports from the fire protection agencies in Santa Barbara County. Fire reports prepared by fire protection agencies are a valuable resource for discovering damaged or destroyed properties. In addition, these reports offer much needed information about the property damaged.

We obtained lists of fire inspections by address and damage amount from both the City of Santa Barbara and the county fire departments. We found several properties not identified by the assessor that appeared to qualify for disaster relief. Had the property owners been informed, they may have benefited from disaster relief provisions. By obtaining these reports, the assessor could send disaster relief applications to qualifying property owners in a timely manner.

***Assessment Roll Changes***

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

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes processed over recent years:

<b>ROLL YEAR</b>	<b>ROLL CHANGES</b>
2006-07	2,356
2005-06	4,288
2004-05	2,710
2003-04	3,281
2002-03	4,655

For real property, the appraisers initiate roll changes, citing the appropriate statutory authority. The appraisers also estimate the current values when applicable. This data is entered into the computer system, which computes the amount of the change and generates the appropriate notices to the taxpayer and the county auditor. For business property, auditor-appraisers initiate roll changes.

We reviewed the assessor's *Notice of Proposed Escape Assessment*, *Notice of Enrollment of Escape Assessment*, and *Notice of Decreased Assessment*. In all cases, all required elements are incorporated in the notices.

We found roll corrections reviewed were made within the statutory time period, and that the *Notice of Proposed Escape Assessment* was mailed to taxpayers at least 10 days before changes were entered on the roll.

***Low-Value Property Exemption***

Section 155.20 authorizes a 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 the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. A board of supervisors must adopt a low-value property exemption resolution before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

In Santa Barbara County, the board of supervisors concluded that the low-value threshold for cost-effective assessments is \$5,000. As a result, on December 7, 2004, the board of supervisors adopted an ordinance implementing the provisions of section 155.20 commencing with the fiscal year 2004-05. In its current form, this resolution allows for the exemption of unsecured personal property, manufactured homes, and possessory interests with a full value of \$5,000 or less.

This resolution also authorizes the exemption of certain possessory interests in publicly owned fairgrounds, fairground facilities, convention facilities, or cultural facilities, provided such possessory interests have a base year value of \$50,000 or less. Consistent with the provisions of section 155.20, the ordinance excludes from exemption enforceably restricted property, timberland preserves, property used exclusively for non-profit golf course purposes, and property owned by local governments located outside the agencies' boundaries.

All qualifying property under \$5,000 is enrolled by the assessor's office and subsequently exempted by the computer system until such time as the \$5,000 value threshold is exceeded.

We found that the assessor's low-value property exemption program complies with the ordinance adopted by the Santa Barbara County Board of Supervisors and with all statutory provisions.

### ***Exemptions***

#### **Church and Religious Exemptions**

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

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

The following table presents the number of properties and the amount of assessed value exempted under the church and religious exemptions for recent roll years:

ROLL YEAR	CHURCH	EXEMPTED VALUE	RELIGIOUS	EXEMPTED VALUE
2007-08	45	\$17,665,022	258	\$163,321,253
2006-07	55	\$20,481,254	261	\$161,423,061
2005-06	42	\$14,100,342	265	\$156,523,962
2004-05	36	\$18,539,646	249	\$133,753,356
2003-04	34	\$13,002,383	252	\$137,628,927

### Welfare Exemption

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

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* (OCCs) to qualified organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

The following table summarizes the number of properties and the amount of assessed value exempted under the welfare exemption for recent roll years:

<b>ROLL YEAR</b>	<b>WELFARE</b>	<b>EXEMPTED VALUE</b>
2007-08	1,052	\$1,515,224,883
2006-07	1,395	\$1,408,978,742
2005-06	997	\$1,281,219,744
2004-05	1,026	\$1,142,895,362
2003-04	984	\$1,077,118,193

**Homeowners' and Disabled Veterans' Exemptions**

The homeowners' exemption is authorized by article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218, exempts \$7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

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

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. While the disabled veteran's exemption at the \$100,000 basis requires a one-time filing, the disabled veteran's exemption at the \$150,000 low-income basis requires an annual filing to determine continued eligibility.

We reviewed a variety of exemption claims, including claims for the welfare and religious exemptions. Our review of these claims indicates that there are several areas within the exemption program where improvement can be made.

**RECOMMENDATION 2:** Improve the exemption program by: (1) conducting field inspections for newly filed religious exemption claims, and (2) performing field inspections for new welfare exemption claims.

**Conduct field inspections for newly filed religious exemption claims.**

Our review of the assessor's church and religious exemption records indicates that field inspections are not conducted for first-time claimants to verify the stated exemption purposes for newly filed exemption claims.

Section 207 exempts from property taxation property owned by a church and used exclusively for religious worship or for both religious worship and school purposes. The use of a portion of the property for purposes other than religious purposes disqualifies that portion of the property from receiving the religious exemption, although that portion of the property may qualify for the welfare exemption if the use is a qualifying use by a qualified organization with an OCC as set forth in section 214.

The assessor should inspect property for which the religious exemption has been initially claimed to ensure only qualified religious uses receive the exemption. While the assessor does conduct some inspections, it is especially important for first-time claimants. Failure to inspect these properties may result in the inappropriate granting of the religious exemption for disqualifying or non-religious uses.

**Perform field inspections for new welfare exemption claims.**

Our review of the assessor's welfare exemption records indicates the assessor fails to regularly perform physical inspections for welfare exemption claims. In order to ensure the integrity of the welfare exemption claim program and to ensure compliance with section 256, the assessor should perform field inspections for all new welfare exemption claims and periodically inspect property for which the welfare exemption has been claimed. Moreover, field inspections are important to verify whether construction activities were commenced in the appropriate assessment year to qualify for the exemption.

Failure to perform field inspections may result in erroneously allowed claims or claims that have been erroneously disallowed.

## **ASSESSMENT OF REAL PROPERTY**

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

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

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

### ***Change in Ownership***

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership pursuant to section 110.1.

### **Document Processing**

The Santa Barbara County Assessor's and Recorder's Offices are combined, and as a result, they use an integrated computer system for document processing. For example, upon recordation of documents by the Recorder's Office, data from these documents, which may indicate a change in ownership of real property, are electronically transmitted to the assessor's transaction unit for review. In addition, any form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, accompanying a recorded document, is also sent directly to the assessor's office.

All changes in ownership are reviewed by the transaction unit to determine whether or not the document represents a reappraisable event. In addition, the transaction unit is responsible for handling exclusions and ensuring accuracy in the system for the owner's name, ownership interest, mailing address, and exemptions for each parcel. Once the transaction unit determines that there is a change in ownership, an electronic worksheet is created to track that workload item.

The real property staff is responsible for valuing all changes in ownership. Changes in ownership documents are assigned to individual appraisers, and the workload items are reflected on their workload reports until the appraisals are completed and approved by the principal appraiser.

The following table shows the total number of recorded documents received by the assessor's office and the total number of those determined to result in reappraisable transfers for recent roll years:

<b>ROLL YEAR</b>	<b>RECORDED DOCUMENTS</b>	<b>REAPPRAISABLE TRANSFER DOCUMENTS</b>
2006-07	19,580	3,120
2005-06	22,875	7,320
2004-05	25,043	7,927
2003-04	27,834	7,431
2002-03	26,887	7,516

**Discovery**

When the assessor learns about unrecorded transfers (e.g., from newspaper articles, real estate brokers, business property statements), he contacts property owners for information on sales contracts and long-term lease agreements. The assessor also pursues any missing information regarding the term of a lease in order to determine if the lease is for 35 years or more and would thereby qualify as a change in ownership.

When the assessor reviews deeds that purport to transfer property to either a trust, trustee(s) or beneficiary(ies), he requests further information from the transferor to determine whether or not the transfer is eligible for exclusion from change in ownership or subject to reappraisal.

**Legal Entity Ownership Program (LEOP)**

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180, subdivisions (c) and (d), interpret and clarify section 64, providing examples of transfers of interests in legal entities that either do or do not constitute a change in entity control or a transfer of more than a 50 percent interest previously excluded under section 62, subdivision (a)(2) by an original co-owner, and hence, either do or do not constitute a corresponding change in ownership of the underlying real property owned by the legal entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the transfers in legal entity interests, and thus, no notice of any real property transfers or the change in entity control.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under

section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

We reviewed a number of properties on the LEOP list sent to the Santa Barbara County Assessor and found no errors pertaining to identification and change in ownership enrollment.

**Change in Ownership Exclusion**

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of the principal residence and the first one million dollars of other real property between parents and their children. Certain transfers of real property from grandparents to their grandchildren are also excluded.

The following table shows the approved section 63.1 applications for recent roll years:

<b>ROLL YEAR</b>	<b>SECTION 63.1</b>
2006-07	2,248
2005-06	1,152
2004-05	1,423
2003-04	1,004
2002-03	1,382

Our review of several completed 63.1 claims confirms that the assessor properly accepts only fully completed applications. However, we found one problem with the assessor's program for handling the section 63.1 exclusion.

**RECOMMENDATION 3:** Reappraise all properties exceeding the \$1 million exclusion provided in section 63.1.

We found the assessor has yet to reappraise several properties in the county reported on the BOE's *Report of Transfers Exceeding \$1,000,000*.

Section 50 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership pursuant to section 110.1. Excluded from this reappraisal are transfers of real property between parents and their children as provided in section 63.1. However, this exclusion applies only to the transferor's principal place of residence and the first \$1,000,000 of real property other than the transferor's principal place of residence. As part of this enforcement process, the BOE tracks each transferor and the properties transferred. Once a transferor exceeds the \$1,000,000 limit, the BOE sends the assessors a *Report of Transfers Exceeding \$1,000,000*. The report lists the transferors that have exceeded the \$1,000,000 limit and the properties transferred. The assessor's

failure to reappraise properties exceeding the \$1,000,000 results in these properties being assessed at something other than fair market value upon a change in ownership.

### ***New Construction***

Section 70 defines newly constructed property, or new construction, as: (1) any addition to real property since the last lien date; or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine a new base year value for the portion of any taxable real property that has been newly constructed. Section 71 further requires the assessor to determine the full cash value of any newly constructed real property in progress on each lien date until the completion of construction and to determine the entire portion of property that is newly constructed on its date of completion. Finally, section 71 provides that the full cash value of the completed new construction becomes the new base year value of the newly constructed property. However, the base year value of the remainder of the property assessed, which did not undergo new construction, remains unchanged.

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

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

### ***Discovery***

Most new construction activity is discovered from review of building permits. Currently, the assessor receives building permits from nine permit-issuing agencies: the cities of Buellton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria, Solvang, and the County of Santa Barbara. Discovery methods also include review of business property statements, aerial photography, and completion reports for water well construction, and field canvassing.

The assessor also receives information from the City of Santa Barbara Building Department for non-permitted new construction discovered by inspections of homes pending transfers in escrow. The non-permitted new construction is issued an "as built" permit, which is forwarded to the assessor. In addition, the assessor receives copies of building permits and building plans from the various permitting agencies. All permit-issuing agencies place the appropriate assessor's parcel numbers (APNs) on the permits pursuant to county ordinance.

The following table shows the number of permits received by the assessor and the number of those that generated value for recent roll years:

<b>ROLL YEAR</b>	<b>PERMITS RECEIVED</b>	<b>PERMITS GENERATING VALUE</b>
2006-07	10,000	5,085
2005-06	10,000	5,062
2004-05	10,498	5,249
2003-04	10,362	5,191
2002-03	9,900	4,685

**Permit Processing**

An assessment technician reviews residential, commercial, and industrial permits to determine whether or not the activity qualifies as new construction. If the activity qualifies as new construction, the clerk enters the permit information into the computer system for review by the appraisers. Permits deemed maintenance or replacement items are discarded. We have one recommendation for improving permit processing.

**RECOMMENDATION 4:** Revise procedures for processing building permits by requiring permit-issuing agencies to send all permits to the assessor.

The assessor is not receiving all permits issued by the various permit-issuing agencies. While some agencies may forward all permits to the assessor, others purge those they determine to be non-assessable based on guidelines provided by the assessor.

No statutory or regulatory provisions allow permit-issuing agencies to select or determine which permits are to be forwarded to the assessor's office. In fact, section 72 requires county and city building departments to furnish the assessor with copies of building permits and certificates of occupancy. This procedure is perhaps the assessor's most effective method of discovering new construction. Culling permits is not a function of permitting agencies, but a function of the assessor's office. There is currently no method of determining if the permit-issuing agencies are culling permits correctly and forwarding all permits that qualify as assessable new construction. Therefore, the assessor should insist that permit-issuing agencies forward all permits to the assessor's office so that his office can determine assessability. By requiring that permit-issuing agencies send all permits to the assessor, the assessor's method of discovering new construction would be more effective.

**Valuation**

The assessor values new construction by estimating the full cash value of new construction as of the date of completion. The appraiser determines the completion status of new construction from on-site reviews, notices of completion from the building department, or from information

provided by taxpayers. Sources used to determine cost indicators of value include the *Marshall Valuation Service* and Assessors' Handbook Section 531, *Residential Building Costs*. All permits are field reviewed to determine whether a new construction event has occurred.

**Construction in Progress (CIP)**

Section 71 requires the assessor to enroll construction in progress at its fair market value on each lien date until the date of completion, at which time the new construction is assessed at its fair market value and a base year value is assigned. We found no problems with this aspect of the assessor's program.

***Declines in Value***

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

The assessor identifies declines in value through taxpayers' requests for reviews and by reviewing value trends for each geographical area. The following table shows the number of decline-in-value assessments processed in Santa Barbara County in recent years:

<b>ROLL YEAR</b>	<b>DECLINES IN VALUE</b>
2006-07	175
2005-06	175
2004-05	136
2003-04	130
2002-03	238

Santa Barbara County annually identifies properties with market values below their FBYV. Such properties are coded in the computer system in such a way as to prevent the system from automatically applying the inflation factor to the prior year's taxable value, and to alert each appraiser of required annual reviews. The assessor annually compares the FBYV of properties with their current market values and enrolls the lesser of the two values.

Our review of several decline-in-value properties shows that the assessor applies the annual inflation factor to such properties only after the properties have been restored to their FBYV, pursuant to section 51(e). Santa Barbara County does not have an abundance of subdivisions or homogeneous tracts; consequently, when an appraiser discovers property that has declined in value, the appraiser typically lowers only the value of the property under review. If other homes in the area have similar features and dates of sale as the property determined to have declined in value, the appraiser will review these other homes' property values to determine whether or not corresponding declines in value have occurred.

Value notices are sent to property owners, pursuant to section 619(a) and (c), when the assessed value has changed due to a decline in value, if the decline-in-value remains on the roll for the current assessment year, or if the decline in value has been fully or partially restored.

We found the assessor's decline-in-value program to be current and reflect accurate value calculations.

### ***Supplemental Assessments***

Sections 75 through 75.80 mandate that the assessor issue supplemental assessments for changes in ownership and for completion of new construction that occur after the lien date. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completion of new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, and another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. The supplemental assessments are generated by computer and are electronically forwarded to the auditor-controller for issuance of the tax bills. The assessor enrolls all supplemental assessment values regardless of amount; however, the auditor will cancel any resultant tax bill that is \$50.00 or less, as allowed by section 4986.8.

### **Enrollment**

We examined several new construction and transfer events and found the assessor properly processes negative supplemental assessments, as required, when property loses value due to damage or the voluntary removal of improvements. The assessor correctly makes two supplemental assessments for events occurring between January 1 and May 31, and one supplemental assessment for events occurring between June 1 and December 31. Additionally, the assessor properly applies the inflation factor for the following lien date when a supplemental assessment event occurs between January 1 and June 30.

In our 2004 survey, we recommended the assessor make supplemental assessments for structural leasehold improvements and taxable possessory interests assessed on the unsecured roll. The assessor failed to comply with our recommendation; therefore, we repeat it in this survey.

**RECOMMENDATION 5:** Issue supplemental assessments for structural leasehold improvements and taxable possessory interests assessed on the unsecured roll.

We found that the assessor fails to make supplemental assessments for structural leasehold improvements and taxable possessory interests assessed on the unsecured roll. The assessor's unsecured system is not designed to process supplemental assessments.

Section 75.14 provides all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessment. Structural leasehold improvements and taxable possessory interests, which are real property, are subject to supplemental assessment. The assessor's practice of not issuing supplemental assessments for structural leasehold improvements and taxable possessory interests assessed on the unsecured roll is contrary to statute.

We recommend the assessor issue supplemental assessments for structural leasehold improvements and taxable possessory interests assessed on the unsecured roll.

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

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

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

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

For the 2006-07 tax roll, CLCA contracts encumbered approximately 2,273 parcels encompassing a total of 553,015 acres. This includes 38,922 acres in nonrenewal status, 616 acres in Agricultural Conservation Easements, and 133 acres in Farmland Security Zone Contracts, a more restrictive form of the CLCA contract. The total assessed value for CLCA land and improvements for 2006-07 was \$1.36 billion.

Most of the rural property in Santa Barbara County consists of rangeland or is used to grow vegetables, fruit, and nuts. The bulk of the agricultural revenue generated in the county is derived from these crops.

The valuation of CLCA property in Santa Barbara County is the responsibility of two real property appraisers. An assessment supervisor reviews the appraisals. The appraisers mail CLCA questionnaires annually to the property owners and use the information received to determine the net income to the property. Restricted values are automatically calculated in the computer system using the correct capitalization rate, including components for property taxes and risk. The assessor recognizes that the risk component varies according to the risk associated with the development of the income to be capitalized.

The assessor is designing a new computer system for the CLCA program, which will replace the system currently in use and which will reportedly be completed for the 2008-09 assessment roll.

## Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences, or the site of a residence. AH 521 page II-51 provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner."<sup>4</sup> In other words, the homesite must be valued at the lesser of the FBYV or the fair market value of a comparable homesite. We found that this is the assessor's policy and practice.

Homesites are valued in compliance with section 428. Pursuant to sections 75.14 and 52(a), the assessor issues no supplemental assessments for restricted land. Only one contract has recently been cancelled.

While the assessor's program is fairly efficient, we did note two weaknesses in the current CLCA assessment program that need to be addressed.

**RECOMMENDATION 6:** Improve the California Land Conservation Act assessment program by: (1) properly estimating the income stream to living improvements, and (2) valuing unrestricted improvements at the lower of the factored base year value or current market value.

### **Properly estimate the income stream to living improvements.**

The assessor uses an inclining-stable-declining income premise to value orchards and vineyards in all stages of production; however, we found problems with the implementation of the assessor's method. The assessor values trees going from inclining to stable income using an average of the past four years of production, which results in an understatement of production to the living improvements for the first four years of stable income.

The assessor's method of estimating the income stream based on four years of prior production understates the value during the early years of the stable stage of the life cycle of the living improvements.

### **Value unrestricted improvements at the lower of the FBYV or current market value.**

We found that the assessor does not develop a current market value indicator for unrestricted improvements and does not enroll the lower of the FBYV or the current market value when valuing unrestricted improvements. Instead, the assessor annually enrolls the FBYV.

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<sup>4</sup> *Assessment of Agricultural and Open-Space Properties*, October 2003, page II-51.

Property not specifically restricted by a CLCA contract must be valued for property tax purposes in accordance with article XIII A of the California Constitution. Since most nonliving improvements on open-space property are not included in the enforceable restrictions, they are valued in this manner. In order for the assessor to value enforceably restricted property that includes nonliving improvements, each separate appraisal unit must be identified. Property could consist of several separate appraisal units: one appraisal unit consisting of property that is restricted and another appraisal unit consisting of property that is unrestricted.

Accordingly, the assessor must determine the current market value for the unrestricted appraisal unit and enroll the lower of the FBV or the current market value. By not comparing the FBV of the improvements with the current market value, there is a potential for overassessment.

***Taxable Government-Owned Properties***

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

The following table shows the number of parcels and their total assessed value for taxable government-owned properties in Santa Barbara County over recent years:

<b>ROLL YEAR</b>	<b>PARCELS</b>	<b>TOTAL ASSESSED VALUE</b>
2006-07	61	\$2,393,164
2005-06	66	\$4,586,761
2004-05	60	\$2,343,588
2003-04	59	\$2,041,789
2002-03	60	\$2,237,034

When a new government-owned property is discovered, the title transfer unit uses the county tax rate area (TRA) list to determine whether the property falls within the boundary of the government agency. The file is then routed to the appraiser assigned to the geographical area to ascertain whether the property is taxable. If the property is taxable, the file is sent to the Lompoc field office for valuation.

The assessment supervisor in the Lompoc field office handles the taxable government-owned property program for the assessor's office. He maintains a database comparing the restricted value, the factored base year value, and the current market value for all taxable government-owned properties. Each year, the database is updated with the latest BOE-announced restricted value factor. The lowest of the three values is enrolled.

The assessor reviews each acquisition of property by a government entity to determine whether the property was taxable or exempt when acquired. Newly acquired taxable government-owned properties are not subject to supplemental assessment. Annexation of taxable government-owned land by municipalities is tracked initially through the mapping unit. The title transfer unit reviews the annexation and sends the information to the assessment supervisor in Lompoc to remove the property from taxable government-owned property status.

We reviewed several parcels on the county's list of zero value public lands. We compared the tax rate area of the parcels to the county's list of tax rate areas and found all parcels fell within the tax rate area boundary, and therefore, are properly exempted.

We found the assessor is in compliance with BOE guidelines and have no recommendations.

### ***Taxable Possessory Interests***

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

The assessor is responsible for identifying and valuing taxable possessory interests upon the creation, renewal, or renegotiation of a lease, and upon the construction of new improvements on publicly owned property.

The Santa Barbara County Assessor's program for discovering taxable possessory interests includes annual polling of all government entities in the county, requesting information regarding any lease agreements they may have with private parties. The assessor contacts 56 public agencies annually to request current information on new or changed tenancies and rents.

There are currently about 3,000 taxable possessory interests assessed in Santa Barbara County with a total value exceeding \$410 million. During our review of the assessor's program for assessing taxable possessory interests, we found a few areas within the program where improvement is needed.

**RECOMMENDATION 7:** Improve the taxable possessory interest program by:  
(1) recognizing lessor expenses when valuing taxable possessory interests by the income approach, (2) documenting taxable possessory interest appraisals, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

**Recognize lessor expenses when valuing taxable possessory interests by the income approach.**

In our 2004 survey, we found the assessor typically capitalizes the actual contract rent without making any deductions for management and other operating expenses incurred by the public lessor. The assessor continues the practice of not making any deductions for management and other operating expenses when valuing taxable possessory interests.

Rule 21(e)(3)(A) provides in the direct income approach, the amount to be capitalized to arrive at a value estimate is the future net income the taxable possessory interest is capable of producing under typical, prudent management during the term of possession. Rule 8(c) provides that it is appropriate to reduce a lessor's rental income for prudent management and other property-related expenses incurred by the lessor.

Capitalizing the gross income without deducting typical, prudent management and other property-related expenses overstates the value of the taxable possessory interest.

**Document taxable possessory interest appraisals.**

In our 2004 survey, we found the assessor often did not document important appraisal information in either the taxable possessory interest file or computer system. Our current survey found the assessor continues to fail to place relevant appraisal information in the taxable possessory interest records. We found multiple taxable possessory interest property records missing the written agreements which created the taxable possessory interest.

Rule 21 describes the various valuation approaches and how to determine the term of possession for the valuation of taxable possessory interests. For example, subsection (d) provides that the stated term of possession is deemed the reasonably anticipated term of possession except in certain situations, and subsection (e)(3)(C) provides how to determine the income for capitalization purposes.

Without the written agreement, the assessor cannot document or verify the terms of possession used in his appraisal or determine the expenses that the public agency is required to pay. Accurate valuation of a taxable possessory interest cannot be completed if the written agreement conveying the taxable possessory interest is not available to review.

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

We found the assessor does not periodically determine the current market value of taxable possessory interests on each lien date with stated terms of possession. The assessor enrolled the factored base year value (FBYV) of these interests until either the expiration of the contract term of possession or a change in ownership occurred.

Pursuant to Rule 21(d)(1), a contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term. Rule 21 also provides that the stated term of possession for a taxable possessory interest is the remaining period of possession; therefore, the stated term

of possession declines on each lien date. Since this may have a material effect on the market value of the taxable possessory interest, the appraiser must estimate the market value of a taxable possessory interest on the lien date (based on the remaining term of the contract), compare this value with the FBV, and enroll the lesser of the two.

Failing to periodically review taxable possessory interests with a stated term may overstate the value of the taxable possessory interest.

### ***Leasehold Improvements***

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

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

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

The most common methods of discovery of leasehold improvements include reviewing construction permits, sending new construction questionnaires to tenants, examining rent rolls for tenant changes and/or rent changes, and coordinating and exchanging information between the business property and real property staff.

When there are leasehold improvements, the Santa Barbara County Assessor's office policy is to determine whether or not these improvements are secured to a real property parcel. If the improvements reported on the BOE-571-L, Schedule B are not secured to a real property parcel, the assessor values these structural improvements and fixtures on the unsecured roll. We have no recommendations in this area.

### ***Water Company Properties***

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues. There are no private water systems in Santa Barbara County.

## Municipal Water Systems

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

We found the assessor properly exempted city- and county-owned water system property.

## Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to land, improvement, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels. However, if the ownership in a mutual water company is not appurtenant to the land, its land, improvements, and personal property must be assessed separately from the served parcels.

In our 2004 survey, we recommended, among other things, the assessor obtain documentation for all mutual water companies. In our current survey, we found the assessor has not implemented this prior recommendation. It is, therefore, repeated here.

**RECOMMENDATION 8:** Improve the water company assessment program by obtaining articles of incorporation and other relevant property tax documents from each mutual water company.

We found no articles of incorporation in some of the appraisal files of property owned by mutual water companies. In order to assess the real and personal property of mutual water companies correctly, the assessor must review the articles of incorporation and asset lists. Without this data, the assessor cannot ensure that all the assets of the mutual water companies are correctly assessed or appropriately reflected in the value of the properties served.

For example, we found parcels owned by mutual water companies whose shares are appurtenant to the land they serve were enrolled for substantial amounts even though the served parcels are valued at their sales prices. Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, at p. 17, provides that the value of mutual water company property is typically reflected in the value of the land they serve and to which the shares are attached. There may be double assessments if the assessor enrolls a separate assessment for the mutual water company property, while appraising the land serviced by such companies at the value indicated by the sales price. Articles of incorporation and other relevant property tax documents are needed to ensure that the property is properly assessed.

## **Mineral Properties**

Petroleum, mining, and geothermal properties comprise the three main categories of mineral properties. By statute and case law, mineral rights are taxable as real property. Mineral rights refer to the rights to explore, develop, and produce minerals. There may be other real property associated with these rights. Mineral properties are subject to the same laws and general appraisal rules as all real property in the state. Additionally, there are three specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties. While there are assessable petroleum and mining properties located in Santa Barbara County, there are no assessable geothermal properties.

### **Petroleum Properties**

The county ranks seventh in oil production in the state and twelfth in natural gas production. The petroleum properties are valued by an Appraiser III. These appraisals are then reviewed and approved by the unit manager before enrollment. The assessor retains a mineral appraisal consultant to assist with any appeals of these property assessments.

Reserve calculations for the petroleum properties are primarily done internally by way of the assessor's petroleum valuation spreadsheet. The staff inputs current production and the estimated decline rate and other economic parameters into the spreadsheet, which determines the value of the reserves and production schedule for the property. Because of the recent increases in petroleum prices, most of the petroleum properties in the county are now enrolled at adjusted base year values. Our review found no problems with the assessor's program for assessing petroleum properties.

### **Mining Properties**

Mining property values are estimated by an appraiser III, and reviewed and approved by the unit manager. Our review found two areas with the assessor's program for assessing mining properties where improvement can be made.

**RECOMMENDATION 9:** Improve the assessment of mining property by: (1) using market royalty rates when calculating the current market value, and (2) recognizing reductions in the value of reserves according to Rule 469(e)(1)(B).

#### **Use market royalty rates when calculating the current market value.**

The assessor uses a royalty rate lower than that currently negotiated by property owners in valuing the leased fee mineral right interest of mineral properties. This valuation method capitalizes the projected royalty payments made per unit of produced mineral to arrive at the current market value of the mineral interest.

We noted some instances where the royalty rate provided by taxpayers was not used by the assessor. The rate provided by the taxpayers was higher than the rate used by the assessor. As a result, the assessor's appraisal underestimated the current market value of the mineral rights and also underestimated any adjustments to the base year for added reserves.

**Recognize reductions in the value of reserves according to Rule 469(e)(1)(B).**

We found that the assessor does not properly reflect declines in the base year value (BYV) of mining properties that occur for other than depletion of the minerals. We found one property where the assessor identified a significant reduction in the proved reserves, but did not reduce the BYV of the property.

Instead of reflecting the negative value adjustment, the assessor's worksheet defaulted to a zero value. Because the BYV is carried forward to subsequent years, errors of this nature tend to compound. Accordingly, the value of the depleted reserves was overstated in the following year.

The quantity of reserves on a mineral property can change from one year to the next for a variety of reasons. Increases in the quantity of reserves can be the result of new discoveries, increased demand for a product that accelerates production of long term reserves, and improved economic operation conditions, i.e., higher sales price or lower operating costs. Decreases in reserves can also occur on properties for the converse reasons.

Rule 469(e)(1)(B) provides that reductions in the amount of recoverable reserves caused by production or changed physical, technological or economic conditions or a change in the expectation of future production capabilities constitute a reduction in the measure of the mineral rights and shall correspondingly reduce the value of the reserve, which must be reflected on the subsequent lien date. Failure to recognize the proper reductions to the BYV will result in overassessment of the property.

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

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority.<sup>5</sup> The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, governing the valuation of intercounty pipeline lands and rights-of-way.

When valuing the pipeline rights-of-way prior to the appellate court decision, the BOE developed "density classifications" for appraisal purposes. Currently, assessors generally use the BOE-developed classifications. Should an assessor use different classifications or associated values, the assessor loses the benefit of a statutory presumption of correctness. (See section 401.10(a).)

Santa Barbara County complies with the three density classifications pursuant to section 401.10(a)(1)(A)(i)-(iii). The 1975-76 base year values for these classifications are: high

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<sup>5</sup> *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4<sup>th</sup> 42.

density is valued at \$20,000 per mile, transitional density at \$12,000 per mile, and low density at \$9,000 per mile.

Santa Barbara County has six pipeline right-of-way assessments on the 2006-07 roll with a total assessed value of \$3,268,713. All the pipeline rights-of-way in Santa Barbara County are valued by one real property appraiser.

The assessor maintains a separate base year value for each separate right-of-way interest, but assesses the rights-of-way to a single countywide tax rate area pursuant to section 401.8(a).

Pipeline rights-of-way in Santa Barbara County are correctly valued pursuant to the provisions of sections 401.8 through 401.12.

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

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

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

The assessor's staff assigned to the business property program consists of eight positions: one supervisor, five auditor-appraisers, and two support staff.

In this section of the survey report, we review the assessor's audit, business property statement processing, business property valuation, and leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

### ***Audits***

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

The following table shows the total number of audits completed over the last five years by the Santa Barbara County Assessor:

<b>DESCRIPTION</b>	<b>2006-07</b>	<b>2005-06</b>	<b>2004-05</b>	<b>2003-04</b>	<b>2002-03</b>
<b>AUDITS SCHEDULED</b>					
MANDATORY	416	320	346	224	394
NON-MANDATORY	17	10	2	32	0
TOTAL AUDITS SCHEDULED	433	330	348	256	
CARRIED OVER FROM PRIOR YEAR	43	93	156	313	306
TOTAL AUDIT WORKLOAD	476	423	504	569	700
<b>AUDITS COMPLETED</b>					
MANDATORY	409	370	409	381	387
NON MANDATORY	17	10	2	32	
TOTAL AUDITS COMPLETED	426	380	411	413	387
MANDATORY AUDITS CARRIED FORWARD	50	43	93	156	313

**Mandatory Audits**

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.<sup>6</sup>

For the 2006-07 roll, there were approximately 1,200 accounts in Santa Barbara County subject to the mandatory audit requirement. Each year, the assessor generates a computer listing of accounts attaining values of \$400,000 or more for four consecutive years, forming the basis of the mandatory audit list. To remain current, the assessor must audit approximately 300 accounts each year.

Prior to the 2004-05 roll, the assessor was behind on completing his mandatory audits. Over the last few years, however, the assessor has addressed the backlog of mandatory audits and would now meet the new criteria for determining mandatory audits.

**Statute of Limitations**

Pursuant to section 532, when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year for which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time period, the assessor may request, pursuant to section 532.1, a

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<sup>6</sup> Effective January 1, 2009, the criteria for determining mandatory audits changed to require the assessor to conduct audits, equal to 75% of the number of audits completed during 2002-03 through 2005-06, with at least 50% to be selected from a pool of those taxpayers with the largest assessments. (See section 469, as amended.)

waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

During our review of the mandatory audit workload and review of the assessor's audit files, we found the assessor sought waivers for all mandatory audit accounts that were not going to be completed prior to the expiration of the four year statute of limitations. Waivers were obtained from most of the mandatory audit accounts for 2006 that were not going to be completed by the end of the fiscal year. For the remaining mandatory audit accounts, where taxpayers did not execute a waiver of the statute of limitations, the assessor made assessments based on information available for years soon to be lost due to expiration of the statute of limitations. We found the assessor was proactive in dealing with the statute of limitations.

### **Audit Quality**

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

We found the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

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

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

### **Workload**

The Santa Barbara County Assessor processed over 18,000 statements for the 2007-08 assessment roll with a secured assessed value of \$936,401,745 and an unsecured assessed value of \$2,123,158,800.

### **General Statement Processing**

When a business property statement is received in the Business/Mineral Sub-Division, a clerk date stamps the statement and reviews it for completeness, including a legal signature. Any changes in the owner's name, business name, situs, or mailing address are also noted and updated

in the computer system. Once this initial review is completed, the property statements are combined with the appropriate business property records and forwarded to an auditor-appraiser for valuation. The auditor-appraiser completes the valuation worksheets and enters the appropriate data into the computer system. All statements processed by newly hired auditor-appraisers are reviewed by the supervisor for accuracy and completeness.

We reviewed the business property statement program, including processing procedures, use of BOE-prescribed forms, processing by non-certified staff, taxpayer interactions, completeness of the property statements, authorized signatures, application of penalties, coordination with real property staff, and record storage and retention. In addition, we reviewed several active business property statements. We found that all statements sampled evidenced the proper usage of BOE-prescribed forms and the forms were properly signed.

### Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. Taxpayer self-reporting and annual canvassing are significant means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing city and county business licenses, real property appraiser referrals, business directory services, and BOE notifications. We found the assessor employs effective methods for discovering business personal property.

### Filing Procedures

In our 2004 survey, we recommended the assessor impose section 463 late-filing penalties to both secured and unsecured parcels when taxpayers either file property statements late or fail to file at all. During the course of this survey, we found the assessor still fails to impose this mandatory penalty.

**RECOMMENDATION 10:** Apply late-filing penalties to secured business property accounts pursuant to section 463.

Our review of the assessor's records indicates that the assessor still fails to apply late-filing penalties to secured accounts. We found the assessor's computer system is unable to calculate the section 463 penalties for secured properties on the section 601 roll, even though the computer system for the unsecured property roll is able to calculate the section 463 penalties and add them to the assessed values.

Pursuant to section 441(b), a property statement is considered late if not filed by May 7<sup>th</sup> (unless May 7<sup>th</sup> falls on a weekend or holiday, then the due date is extended to the next business day). If the property statement is filed late, this section requires that the penalty prescribed by section 463 be applied to accounts for statements not filed by May 7<sup>th</sup> or amended statements filed after May 31<sup>st</sup>. Pursuant to section 463, a penalty of 10 percent of the assessed value of the unreported taxable tangible property of that person placed on the current roll shall be added to the assessment on the current roll.

The consequence of the assessor's current practice of only assessing late-filing penalties to unsecured accounts is that it results in the inconsistent treatment of secured and unsecured accounts.

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

#### Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

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

In our 2004 survey, we recommended the assessor change his valuation policies regarding the use of unsupported minimum percent good factors and the assessment of reported personal property in apartments. Since the assessor failed to implement these recommendations, they are repeated here.

**RECOMMENDATION 11:** Improve the business property valuation program by: (1) using supportable minimum percent good factors, and (2) properly assessing personal property in apartments.

#### **Use supportable minimum percent good factors.**

The assessor uses minimum percent good factors in the valuation of older machinery and equipment without market data to support the assessor's valuation policies. Beginning with the 2003 lien date, assessors were required to provide supporting documentation when using minimum percent good factors.<sup>7</sup>

When valuing older equipment, we found the assessor limits the percent good factors utilized in many of his valuation tables to those prescribed for an age equal to 125 percent of the originally estimated service life of the taxable asset. AH 581, pages 4-5 recommends, when valuing equipment that has survived beyond the average service life, the appraiser should limit the index factor, not the percent good factor, to the factor for an age of 125 percent of the estimated average service life.

Percent good factors, however, should continue to adjust downward, as the asset ages, to a minimum point, which should be substantiated by market evidence. Many of the assessor's valuation factors, however, stop declining once the 125 percent rule has been met by the index component of the factor. Often times, the percent good component of the assessor's valuation factors fail to reach the California Assessors' Association's (CAA) recommended minimum

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<sup>7</sup> Revenue and Taxation Code section 401.16(b).

percent good factors of nine percent for industrial equipment and 10 percent for commercial equipment, which are based upon an accepted market study and allowed pursuant to section 401.16.

**Properly assess personal property in apartments.**

We found cases where the Santa Barbara County Assessor continues to use a fixed estimate per living unit to value apartment personal property instead of relying on costs reported on property statements.

Landlord-owned personal property in apartment complexes used in the course of a business is taxable. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, exercise equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, draperies, and common area furniture.

Information supplied on form BOE-571-R, *Apartment House Property Statement*, should be the starting point for the assessment of apartment personal property. Because the historical information on the property statement will reflect variations in the age, quality, and quantity of personal property from one apartment property to the next, using this information to develop a current value estimate will be more accurate and equitable than using a fixed amount per apartment unit or an arbitrary value allocation. The assessor's current practice results in inaccurate assessments of personal property in apartments.

***Leased Equipment***

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

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

We reviewed the procedures for assessing leased equipment along with a sample of leased equipment. We found the leased equipment program is well managed, with staff doing an excellent job in the discovery, processing, tracking, and cross-checking of leased equipment information.

***Manufactured Homes***

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after

July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

The following table illustrates the number of manufactured homes in Santa Barbara County and their total enrolled values for recent years:

<b>ROLL YEAR</b>	<b>MANUFACTURED HOMES</b>	<b>ASSESSED VALUE</b>
2006-07	7,612	\$171,213,674
2005-06	7,611	\$149,495,447
2004-05	7,595	\$143,982,002
2003-04	7,597	\$139,875,030
2002-03	7,751	N/A

There are 77 mobilehome parks in Santa Barbara County, five of which are resident-owned. The assessor adheres to the BOE's guidance in the assessment of changes in ownership in resident-owned manufactured home parks.

All manufactured homes in Santa Barbara County are assigned to, and assessed by, one real property appraiser. In compliance with sections 5801(b)(2) and 5830, the assessor enrolls manufactured homes as personal property on the secured roll.

Manufactured home accessories are classified based on the permanency of the accessory. If the accessory is movable, it is added to the value of the manufactured home and classified as personal property. If the accessory is permanent or immovable, it is classified as real property. Santa Barbara County has a low-value property exemption resolution, which exempts from taxation all manufactured homes and associated accessories having a value less than or equal to \$5,000.

The assessor's office discovers taxable manufactured homes by reviewing the State Department of Housing and Community Development reports, building permits, dealer reports of sale, tax clearance certificates, and preliminary change of ownership reports, and appraiser canvassing. Taxable manufactured home accessories are discovered by building permits and appraiser canvassing.

In determining the full cash value of a manufactured home on rented or leased land, the assessor uses the *N.A.D.A. Manufactured Housing Appraisal Guide* (NADA) to determine the value of manufactured homes when a change in ownership occurs. The appraiser typically only considers the use of the sales price of a manufactured home if the home and land are owner-occupied or if the selling price is direct from the dealer in which the home was purchased. However, NADA is still used as a comparison.

The assessor correctly applies supplemental assessments to new and transferred manufactured homes. Exemptions are correctly handled for the assessment of manufactured homes held in dealer's inventory and those held or owned by financial institutions and insurance companies. Pursuant to section 5803(b), site value is not included in the manufactured home assessment.

We have one recommendation for improving the assessment of manufactured homes.

**RECOMMENDATION 12:** Periodically review manufactured home assessments for declines in value.

The assessor does not periodically review manufactured home assessments for declines in value. Although not required to review every manufactured home annually, the assessor should be more proactive in discovering properties declining in value.

Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its full cash value, as determined pursuant to section 110, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value.

Most price guides suggest manufactured homes depreciate in value over time. The assessor only uses NADA to initially value manufactured homes when there is a change in ownership. The inflation factor is applied to the value for subsequent years after a change in ownership as well as to the values of existing manufactured homes.

The assessor typically discovers declines in value of manufactured homes when a taxpayer requests a review of the assessment. However, the assessor does not have a periodic review program to discover declines in value of manufactured homes.

As a consequence of not periodically reviewing manufactured homes for declines in value, the assessor does not comply with statute and may be incorrectly assessing manufactured homes.

## ***Aircraft***

### **General Aircraft**

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

The Santa Barbara County Assessor's Office assessed 540 general aircraft (other than historical aircraft) for the 2007-08 assessment roll with a total value of \$220,478,539. One auditor-appraiser, assisted by a clerical staff member, administers the assessor's aircraft program.

The assessor discovers aircraft through reviews of airport operators' tenant listings and Federal Aviation Administration reports, tips from taxpayers, and from referrals by other counties.

The auditor-appraiser is responsible for valuing general aircraft. An aircraft property statement is mailed each year to the known owner of each aircraft in the county, requesting information to be filed with the county. The form lists the aircraft and requests the owner to report installed avionics, engine air hours since last major overhaul, date of last overhaul, overall condition, air worthiness status, cost information, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the taxpayer-submitted aircraft property statement, the assessor utilizes an electronic version of the *Bluebook* to calculate a market value indicator. Adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul are properly incorporated into the calculation to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

We reviewed several general aircraft records for valuation methodology, appropriate signatures on statements, and the application of late or failure to file penalties pursuant to section 5367. We found that the assessor's procedures for the discovery and valuation of general aircraft conform to statutory provisions and guidelines set forth in Assessors' Handbook Section 577, *Assessment of General Aircraft*.

### **Certificated Aircraft**

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

Six scheduled commercial air carriers fly in and out of the two commercial airports in Santa Barbara County, Santa Barbara Airport and Santa Maria Public Airport. For the 2007-08 assessment year, the assessor enrolled 11 commercial aircraft accounts with an assessed value of \$20,376,611.

The auditor-appraiser responsible for certificated aircraft valuation predicates his appraisals on the aircraft business property statements' reported costs. The appraiser then applies a percentage based on ground and flight time and the number of arrivals and departures in Santa Barbara County during the representative period to the reported costs, to derive a pro rata estimate of the value for certificated aircraft.

We reviewed the certificated aircraft appraisal procedures and found them to be correctly administered and the estimates of value to be properly calculated.

## Historical Aircraft

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

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

There were 56 historical aircraft assessed on the 2007-08 roll in Santa Barbara County with a total value of \$2,152,277. The assessor properly obtains signed affidavits, in the format prescribed by the BOE, and certification of attendance for historical aircraft exemptions claimed within the county pursuant to section 220.5(c). We found that the assessor has properly granted the exemption when the legal conditions are met. We also were able to confirm that the assessor correctly denied the exemption when the affidavit was not filed. We reviewed several declarations of historical aircraft claimant forms and found no problems.

## **Vessels**

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, and information provided by the vessel owners themselves.

For the 2007-08 assessment roll, the Santa Barbara County Assessor enrolled approximately 2,800 vessels with a total assessed value of approximately \$103,500,000. This amount included 10 commercial vessels with a taxable assessed value of approximately \$102,000 qualifying for the 4 percent assessment pursuant to section 227.

The assessor discovers vessels through reports obtained from the DMV, marinas, field canvassing, and referrals from other counties of boat owners moving their vessels to Santa Barbara County.

The assessor appraises vessels initially based on the sales price and the appropriate valuation guides *Outboard Motor Blue Book (ABOS)*, *National Automobile Dealers Association Boat Guide (NADA)*, and *Used Boat Price Guide (BUC)*. If the reported purchase price falls within the value range indicated by the value guides, the purchase price becomes the assessed value; otherwise, a value is estimated using the valuation guides.

In certain instances, other sources may be used, such as Internet resources and local manufacturer sales. Subsequent assessments are based on the prior year's roll values adjusted by a factor taken from a depreciation table developed by San Diego County Assessor, which is updated annually.

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

For the 2007-08 roll year, there were 10 commercial vessels qualifying for the 96 percent exemption provided in section 227. We reviewed several commercial vessel assessments and found that the exemption forms were filed and exemptions granted as appropriate.

Our review found the assessor complies with many applicable statutes. However, we found some areas that need improvement.

**RECOMMENDATION 13:** Improve vessel processing procedures by: (1) requiring vessel owners to file annual vessel property statements for vessels costing \$100,000 or more, and (2) including sales or use tax as a component of market value when appraising vessels.

**Require vessel owners to file annual vessel property statements for vessels costing \$100,000 or more.**

We found the assessor fails to send form BOE-576-D, *Vessel Property Statement*, to the owners of those vessels the assessor classifies as non-commercial vessels, regardless of the cost of those vessels.

Pursuant to section 441(a), each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year, shall file a signed property statement with the assessor. Additionally, Rule 171(d) provides that the assessor shall furnish property statement forms and instructions to every person required by law or requested by the assessor to file a property statement. These provisions apply to all vessels, including non-commercial vessels. The information provided by taxpayers in the property statements provides the assessor with current and accurate information regarding replacement engines and new accessories when making vessel appraisals.

The failure to require property statement filings from owners of such vessels increases the risk of inaccurate assessments based on insufficient information.

**Include sales or use tax as a component of market value when appraising vessels.**

The assessor uses the *NADA* and *BUC* value guides to value vessels. Because these value guides are intended for use on a nationwide basis, they do not include components for California sales and use tax in the values listed. Although we found that the assessor selects the proper values listed in the value guides, he fails to add a sales tax component.

Sales tax is a recognized component of market value and should be added to the values listed in the value guides when determining market values.<sup>8</sup> Assessors' Handbook Section 576, *Assessment of Vessels* (AH 576), at p. 13, provides, where a value guide is used for a comparative sales approach, sales tax should be added to the listed value to arrive at the full cash value for property tax purposes.

Since sales tax has not been included in the vessel appraisals, vessels are being underassessed in Santa Barbara County, and the assessor is not in compliance with guidance provided in AH 576.

**Animals**

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and by Rule 133(a)(2)(D).

The typical animals that are assessed are those used as rodeo stock, show horses, security dogs, riding stable, or pack animals remaining under the owner's direct control, and animals held for breeding purposes. We reviewed the Santa Barbara County Assessor's procedures for the assessment of taxable animals that met the following criteria:

- The animal is held or used in connection with the owner's business, trade, or profession.
- The animal is used to produce offspring for sale at a net profit.
- The animal's proficiency has gained substantial monetary or other awards.

The assessor annually sends form BOE-571-F, *Agricultural Property Statement*, to each property owner whose business is involved in agriculture. Schedule B of this form requests the owner to provide the description and number of all taxable animals in his or her possession. In Santa Barbara County, the assessor relies wholly upon declarations made on submitted property statements for the discovery of taxable animals.

We reviewed the generally practiced procedures for discovering and assessing taxable animals and have no recommendation in this area.

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<sup>8</sup> *Xerox Corp. v. Orange County* [1977] 66 Cal.App.3d 746.

## **APPENDIXES**

### ***A. County-Assessed Properties Division Survey Group***

#### ***Santa Barbara County***

***Chief***

Dean Kinnee

***Survey Program Director:***

Benjamin Tang

Principal Property Appraiser

***Survey Team Supervisor:***

Sally Boeck

Supervising Property Appraiser

***Survey Team Leader:***

Carlos Zaragoza

Senior Specialist Property Auditor-Appraiser

***Survey Team:***

James McCarthy

Senior Mining and Petroleum Appraisal Engineer

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Nick Winters

Senior Property Appraiser

Jeffrey Arthur

Associate Property Auditor-Appraiser

Dan Bibb

Associate Property Auditor-Appraiser

Allan Dannen

Associate Property Auditor-Appraiser

Zella Cunningham

Associate Property Appraiser

Robert Donay

Associate Property Appraiser

Ardeshir Noroozkhani

Associate Property Appraiser

Tammy Aguiar

Assistant Property Appraiser

Ryan Wong

Assistant Property Appraiser

Prubjit Singh

Tax Technician I

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

### **Government Code**

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

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The BOE shall also provide a right to each county assessor to appeal to the board appraisals 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 the assessee's property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

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

**15642. Research by board employees.**

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

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

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 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 BOE began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board, and until all issues are resolved the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

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

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

**Revenue and Taxation Code**

**75.60. Allocation for administration.**

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
  - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board 's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
  - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

### ***Title 18, California Code of Regulations***

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

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
  - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

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

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
  - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
  - (8) Discovering and assessing property that has suffered a decline in value.
  - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

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

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

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

**JOSEPH E. HOLLAND**

County Clerk, Recorder and Assessor  
Registrar of Voters

**JIM McCLURE**

Asst. County Clerk, Recorder and Assessor



105 E. Anapamu St. 2nd Floor  
Santa Barbara, CA 93101

Mailing Address

PO Box 159  
Santa Barbara, CA 93102-0159

**COUNTY CLERK, RECORDER AND ASSESSOR**

June 17, 2009

RECEIVED  
JUN 19 2009  
County-Assessed Properties Division  
State Board of Equalization

Mr. Dean R. Kinnee, Chief  
County-Assessed Properties Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento Ca 94279-0062

Dear Mr. Kinnee:

In accordance with Government Code Section 15645 the Assessor's response to the State Board of Equalization Assessment Practices Survey for 2007 is attached.

I would like to express my appreciation to the Board's Survey Team for the professional manner in which the survey was conducted. The State's survey function is an excellent tool that benefits the State, Counties and local Assessor's offices throughout the state.

I would also like to express my sincere appreciation to the staff of the Santa Barbara County Assessor's office whose outstanding work and dedication each year produce the assessment roll. The Santa Barbara County Assessor has experienced dramatic workload and value increases in a rapidly changing environment resulting in an assessment roll that has increased by \$20 billion dollars since the last survey of 2002. The department has successfully met this challenge and has done so without significant increases in staff or budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph E. Holland".

Joseph E. Holland  
Santa Barbara County  
Clerk-Recorder and Assessor

**Santa Barbara County**  
**Response to the May 2009 BOE Assessment Practices Survey**

We are pleased that the BOE Survey has acknowledged the Santa Barbara County Assessor's efforts and accomplishments in the following areas:

- ✓ The audit found **no significant assessment problems.**
- ✓ **Training** All certified property tax appraisers and auditor-appraisers are properly trained and certified with 26 out of 38 holding advanced appraisal certificates.
- ✓ **Interest Statements.** All staff properly completes and sign a Statement of Financial Interest. Additionally, the department now formally addresses employee owned properties in Conflict of Interest Statements in compliance with Letter to Assessors 2008/058
- ✓ **The Assessment appeals program** is an important and major function of an assessor's office. The assessor is responsible for the processing and defense of assessed values; often involving many, complex assessment issues and hundreds of millions of dollars of assessed value. The survey concluded that "...records involving assessment appeals (were) found to be well documented and complete. Overall, the assessor's appeals program is well administered."
- ✓ **Assessment Roll Changes** as documented by Notices of Proposed Escape Assessment, Notice of Enrollment of Escape Assessment, Notice of Decreased Assessment and Roll Corrections are properly and timely sent according to statute.
- ✓ **The Assessor's low-value** property tax exemption program complies with the adopted ordinance and with all statutory provisions
- ✓ **Real Property Changes in Ownership** is one of the most important and fundamental major Assessor programs under Proposition 13 The survey team found that all changes in ownership are reviewed and valued. The Assessor pursues any missing information on unrecorded transfers and properly enrolls changes in ownership involving the State Board of Equalizations Legal Entity Ownership Program.
- ✓ **New construction** valuation and assessment is also an important and fundamental major Assessor program under Proposition 13. The survey team noted no irregularities or problems in its application
- ✓ **Decline in Value** (Proposition 8) assessments of real estate is a major function of the assessor and now in 2009 is more prevalent than it has been in many years. The Assessor is now in the process of reviewing 23,000 properties for decline in value assessments. The survey team found in 2007 that "the assessor's decline in value program to be current and reflect accurate value calculations."
- ✓ **Supplemental Assessments.** Many thousands of secured supplemental assessments are enrolled annually for changes in ownership and new construction. The survey found that "The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction" and that "the assessor properly processes negative supplemental assessments..." Further the survey states that "the assessor correctly makes two supplemental assessments for events occurring between January 1 and May 31, and one supplemental

assessment for events occurring between June 1 and December 31.” “additionally, the assessor properly applies the inflation factor...”

- ✓ **Agricultural Preserve Program.** This important program includes over 2,200 parcels, 550,000 acres and produces a 2006 assessed value of over 1.3 billion dollars. The survey notes that the assessor is developing a new agricultural preserve computer system and in fact the system has been deployed. We believe the system is one of the best systems in place in California. The new database tracks base values and calculates restricted values and has dramatically improved the accuracy and efficiency of Williamson Act assessments. We also note that the survey team recognizes that the assessor properly varies the appraisal risk component and that home sites are valued at the lesser of factored base value or fair market value.
- ✓ **Taxable Government Owned Properties.** The survey found that the assessor is in compliance with BOE guidelines and have no recommendations.
- ✓ **Municipal Water Companies.** The survey found that “the assessor properly exempted city and county owned water system property.”
- ✓ **Petroleum Properties.** The value of Oil-Gas and Mineral properties in Santa Barbara County for 2007 was 746 million dollars and Santa Barbara county ranks seventh in oil production in the state. The survey “found no problems with the assessor’s program of assessing petroleum properties.”
- ✓ **Pipeline Right of Ways.** Santa Barbara County has six inter-county pipeline right of ways. The survey found that “Pipeline right of ways in Santa Barbara County are correctly valued pursuant to the provisions of sections 401.8 through 401.12.”
- ✓ **Mandatory Audits.** In 2006 there were approximately 1,200 accounts subject to mandatory audit. The survey found that “the assessor has addressed the backlog of mandatory audits and would now meet the new criteria for determining mandatory audits.” Further, the survey “found the assessor was proactive in dealing with the statute of limitations.” “In all cases, audits were accurate, well documented and supported by a comprehensive audit checklist defining the areas of investigation.”
- ✓ **Business Property Statement Program** The assessor processed over 18,000 Business Property Statements in 2007. The survey found “that all statements sampled evidenced the proper usage of BOE prescribed forms and the forms were properly signed.” “We found that the assessor employs effective methods for discovering business personal property.”
- ✓ **Leased Equipment.** The survey found that “the leased equipment program is well managed with staff doing an excellent job in the discovery, processing, tracking and cross-checking of leased equipment information.
- ✓ **Manufactured Homes.** The survey found that “the assessor correctly applies supplemental assessments ....and exemptions are handled correctly.
- ✓ **General Aircraft.** “..the assessor’s procedures for the discovery and valuation of general aircraft conform to statutory provisions and guidelines...”
- ✓ **Certificated Aircraft.** “We reviewed certificated aircraft appraisal procedures and found them to be correctly administered and the estimates of value to be properly calculated.”

- ✓ **Historical Aircraft.** “We found that the assessor has properly granted the exemption...we were also able to confirm that the assessor correctly denied the exemption when the affidavit was not filed...we found no problems.”

**RECOMMENDATION 1:**

**Obtain fire reports from local fire departments to discover property damaged or destroyed by misfortune or calamity.**

**Response:** We concur that obtaining incident reports from fire departments is a useful discovery tool. The assessor has outreached to all fire departments in the county to provide fire incident reports and does receive reports as they are provided by each agency. We thank the survey team for noting that the assessor does discover and assess disaster/calamities through various programs such as building permits, newspapers, field investigation and taxpayer notification.

Disaster/calamity relief is an important function of the assessor’s office. Over the past two years the assessor’s office has successfully performed disaster re-appraisals for the GAP Fire, the even more destructive Tea Fire in November 2009 and the Jesusita Fire in May 2009. In the Tea Fire over 300 homes were damaged or destroyed and in the Jesusita Fire over 100 properties were damaged or destroyed. The assessor attended community outreach meetings, assisted with property tax payment deferrals and is reappraising all the properties pursuant to Revenue and Taxation code section 170

The Assessor sponsored an amendment to the Santa Barbara County Disaster Ordinance in November 2008 to update and clarify the ordinance to continue to be in compliance with changes to the Revenue and Taxation Code. The new Ordinance number is 4697.

**RECOMMENDATION 2:**

**Improve the exemption program by: (1) conducting field inspections for newly filed religious exemption claims; (2) performing field inspections for new welfare exemption claims**

- (1) Conduct field inspections for newly filed religious exemption claims

**Response:** We concur and believe that we are in substantial compliance with statute; field inspections are performed on a case by case basis.

(2) Perform field inspections for new welfare exemption claims

**Response:** We concur and believe that we are in substantial compliance with statute; field inspections are performed on a case by case basis. Both appraisal and exemption staff performs field inspections, further, welfare claims are filed under penalty of perjury.

**RECOMMENDATION 3:**

**Reappraise all properties exceeding the \$1 million exclusion provided in section 63.1.**

**Response:** We concur and believe that we are in substantial compliance with statute.

The assessor does assess properties that exceed the \$ 1 million dollar exclusion. As the 63.1 chart provided by the SBE indicates, many thousands of properties have made claims and have been reviewed and re-assessed. Properties are tracked at their status during the process. All properties are assessed at their proper value based on the results of the review process

**RECOMMENDATION 4:**

**Revise procedures for processing building permits by requiring permit-issuing agencies send all permits to the assessor.**

**Response:** We do not concur.

Require that permit-issuing agencies send all permits to the assessor

**Response:** As the survey notes, the Assessor receives building permits and other data from nine individual agencies. The assessor must design work processes within the practical boundaries of staffing, budgets, work load and to honor our commitment to accountability, customer service and efficiency. As such the assessor provides guidelines to building departments to forward only permits that may result in new construction assessments and not every single permit issued for what ever reason; the permit agencies do not unilaterally select which permits to provide. The assessor receives all permits necessary to assess new construction under statute.

**RECOMMENDATION 5:**

**Issue supplemental assessments for structural leasehold improvements and taxable possessory interests assessed on the unsecured roll.**

- ❖ **Response:** We concur that statute provides for the supplemental assessment of such property and will strive to comply given practical assessment and data processing considerations. We recommend that the BOE provide county assessor's with a practical and efficient procedure for the supplemental assessment of leasehold improvements that is consistent with statute.

**RECOMMENDATION 6:**

**Improve the CLCA assessment program by: (1) properly estimating the income stream to living improvements; and (2) valuing unrestricted improvements at the lower of the FBYV or current market value.**

- (1) Properly estimating the income stream to living improvements:

**Response:** We concur with recommendation (1) and have already remedied this with deployment of our new CLCA valuation system. The new system adjusts the weighted average production during the incline and decline periods to reflect increasing and decreasing yield. As a result, the first 4 years of weighted stable income and the last years of weighted declining income are more accurately estimated. We do not 'discount' production during the decline years. Our new CLCA system ramps production estimates downward for the declining (aging years) based on stable income.

- (2) Value unrestricted improvements at the lower of the FBYV or current market value.

**Response:** We concur with recommendation (2) and have enabled this function with the deployment of our new CLCA valuation system. The system exports all unrestricted improvement values onto an excel spreadsheets. The appraiser has the ability to review the unrestricted improvements as one appraisal unit, or segregate further into additional units, if warranted. Then the appraiser can review under Section 51(d) to avoid over assessment. Current Fair Market Value determinations can be based on the Sales Approach or the Cost Approach.

**RECOMMENDATION 7:**

**Improve the taxable possessory interest program by: (1) recognizing lessor expenses when valuing taxable possessory interests by the income approach; (2) documenting taxable possessory interest appraisals; and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.**

(1) Recognize Lessor Expenses

**Response:** We concur and will recognize lessor expenses in a newly developed possessory interest program when and where appropriate and as this information is made available

(2) Document possessory interest appraisals

**Response:** We concur and the new program being developed will assist in this documentation

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

**Response:** We concur and review taxable possessory interests with stated terms as resources allow. If the stated term is reduced the assessor recognizes the change in terms and recalculates the possessory interest assessment.

**RECOMMENDATION 8:**

**Improve the water company assessment program by obtaining articles of incorporation and other relevant property tax documents from each mutual water company.**

**Response:** We concur and believe that we are in substantial compliance with statute. During 2007 and 2008 the assessor expanded our water company program and it is overseen by an appraiser with an advanced certificate and with SBE water company assessment training. Many water company properties are of low value, with little assessment activity and neither escape nor double assessments have been prevalent. Properties are reviewed and data is collected upon transfer and/or new construction. We address articles of incorporation as resources allow.

**RECOMMENDATION 9:**

**Improve the assessment of mining property by: (1) using market royalty rates when calculating the current market value; and (2) recognizing reductions in the value of reserves according to Rule 469(e)(1)(B).**

(1) Use market royalty rates when calculating the current market value;

**Response:** We do not concur. The assessor strives to use the market royalty rate provided by the taxpayer. Not all properties, however, have separate operators and owners, thus not all properties have negotiated royalty rates. Properties are assessed at market value.

(2) Recognize reductions in the value of reserves according to Rule 469(e) (1) (B).

**Response:** We concur and believe we are in substantial compliance with statute. The assessor will strive to reduce the reserves according to Rule 469(e) (1) (B). The BOE recommendation is based on the experience of one (1) property.

**RECOMMENDATION 10:**

**Apply late filing penalties to secured business property accounts pursuant to section 463.**

**Response:** We concur and will strive to comply. The penalty provided in R&T section 463 is applied to all appropriate Unsecured accounts which comprise the vast majority of the total accounts. The number of secured accounts that would qualify for a penalty is few. The current computer systems does not allow for such penalties on the secured. When new systems are developed for Assessor and Tax Collector this will be addressed.

**RECOMMENDATION 11:**

**Improve the business property valuation program by: (1) using supportable minimal percent good factors; and (2) properly assessing personal property in apartments.**

(1 ) Use supportable minimal percent good factors

**Response:** We concur and a revised approach was implemented and applied to the factored values beginning with lien date 2008. We apply the 125% rule to the index factor and the California Assessor Association recommended minimum per cent good factor of 9% for industrial and 10% for commercial equipment. The assessor also

utilizes Stevens Valuation Guide to support the minimum factors used to assess personal property.

**(2) Properly assess personal property in apartments.**

**Response:** We do not concur; personal property is properly assessed. The policy in place co-ordinates assessments between real property and personal property. An initial fixed estimate of value is set based on the allocation of personal property value as determined by appraisers and auditors from open market sales prices. Property is assessed accurately.

**RECOMMENDATION 12:**

**Periodically review manufactured home assessments for declines in value.**

**Response:** We concur and believe that we are in substantial compliance with statute. Property is assessed at the lesser of its factored base or market value and as the SBE properly notes, the assessor is “not required to review every manufactured home annually....” The assessor is pro-active in reviewing mobile homes for decline in value and actively seek applications through our website and by forms available at all our offices through-out the county and through personal contact with owners.

The BOE survey fails to note that the Santa Barbara County Assessor is properly assessing resident owned mobile home parks pursuant to SBE Letter to Assessor’s 99/87. This is an important omission because the Santa Barbara Assessor is defending the SBE approach and we are actively processing multi-year assessment appeals which are now in Superior Court and to which a great deal of staff and resources have been devoted

**RECOMMENDATION 13:**

**Improve vessel processing procedures by: (1) requiring vessel owners to file annual vessel property statements for vessels costing \$100,000 or more, and (2) including sales or use tax as a component of market value when appraising vessels.**

(1) Requires vessel owners to file annual vessel property statements for vessels costing \$100,000 or more

**Response:** We concur that we do not send owners of vessels costing over \$100,000 an annual vessel property statement. The assessor sends an initial statement upon purchase of the vessel. The assessor will comply with Rule 171(d) and send a statement annually to vessels valued over \$100,000. We do not agree that failure to require a property statement filing from owners of such vessels increases the risk of inaccurate assessments.

(2) Include sales or use tax as a component of market value when appraising vessels.

**Response:** The Assessor will include sales tax to the value guides pursuant to this new recommendation.