

SANTA BARBARA COUNTY ASSESSMENT PRACTICES SURVEY

JANUARY 2004

CALIFORNIA STATE BOARD OF EQUALIZATION

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January 30, 2004

TO COUNTY ASSESSORS:

SANTA BARBARA COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2004/005

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

Fieldwork for this survey was performed by the BOE's County Property Tax Division from September 2002 through February 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Holland, current assessor, Mr. Pettit, former assessor, and staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau
David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

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

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

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increase the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Santa Barbara County Grand Jury, and the Santa Barbara 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 Clerk-Recorder and Assessor,¹ elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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

¹ 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 Code² section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

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 contact with other public agencies in Santa Barbara County that provided information relevant to the property tax assessment program.

This survey also included an assessment sample of the 2002-03 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

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

EXECUTIVE SUMMARY

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

In our 1998 Santa Barbara County Assessment Practices Survey, we made 12 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented six of the recommended changes and partially implemented one. Two prior recommendations no longer apply. Three prior recommendations were not implemented.

The statements below summarize the findings of the current survey:

- Significant improvements have been made in the assessor's office since our last assessment practices survey. Purchases of information technology hardware and software and the resultant improvements in efficiency have greatly improved productivity and the assessor's interface with other county departments. Although the Santa Barbara County assessment roll increased by approximately 36 percent between fiscal year 1998-99 and fiscal year 2002-03, the assessor has maintained relatively constant staffing and budgetary levels.
- Administrative elements of the assessor's office, including certification of his appraisal staff, assessment roll changes, and assessment appeals, conform to statutory requirements.
- The assessor's programs for assessing new construction, enrolling decline-in-value assessments, valuing California Land Conservation Act properties, and assessing leasehold improvements are consistent with the requirements of property tax law.
- For the 2002-03 assessment year, the assessor failed to follow required procedures regarding the approval process for forms used in the assessment process.
- The assessor grants the church exemption despite the absence of the annual affidavit required by section 255.
- The assessor fails to obtain fire reports from all city and county fire departments. In addition, the assessor fails to provide relief, as provided in rule 139,³ to assessees who have suffered restricted physical access to their properties after the September 11, 2001 terrorist attacks.
- The assessor fails to audit racehorse accounts as required by rule 1045.
- The assessor accepted incomplete claims for exclusion from change in ownership for transfers between parents and children.
- The assessor fails to issue supplemental assessments for leasehold improvements and possessory interests on the unsecured roll.
- For taxable government-owned property that has undergone a change in ownership, the assessor fails to establish the base year value according to BOE guidelines.

³ All rule references are to the California Code of Regulations, Title 18, Public Revenues.

- With respect to taxable possessory interests, the assessor does not recognize lessor-expenses in the income approach and does not maintain adequate records.
- The assessor double assesses some mutual water company properties by assessing both the water company property and the properties served by the mutual water system and fails to obtain documentation from mutual water companies.
- The assessor accepts incomplete mining production reports and does not document either the basis of the taxable value or the components of the appraisal unit.
- The assessor does not complete mandatory audits in a timely manner.
- The assessor does not apply the section 463 penalty to secured business accounts.
- The assessor uses unsupported minimum percent good factors when valuing older machinery and equipment.
- The assessor improperly classifies some automated teller machines owned by banks and financial institutions as fixtures.
- In assessing apartment personal property, the assessor deviates from reported costs on the business property statements without any supporting documentation.
- The assessor does not periodically review manufactured homes for declines in value.

Despite the problems noted above, we found that most properties and property types are assessed correctly in the county.

The Santa Barbara County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2002-03 assessment roll indicated an average assessment ratio of 97.08 percent, and the sum of the absolute differences from the required assessment level was 3.25 percent. Accordingly, the BOE certifies that Santa Barbara County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Timely submit the forms checklists and rearranged forms to the BOE for approval.12

RECOMMENDATION 2: Grant the church exemption only to churches that file an annual affidavit as required by section 255.13

RECOMMENDATION 3: Obtain fire reports from local fire departments to discover property damaged or destroyed by a misfortune or calamity.....15

RECOMMENDATION 4: Grant disaster relief for all qualifying misfortunes or calamities as provided in rule 139.....15

RECOMMENDATION 5: Audit racehorse accounts as required by rule 1045.17

RECOMMENDATION 6: Accept only completed section 63.1 claims.....20

RECOMMENDATION 7: Make supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll.....23

RECOMMENDATION 8: Assess taxable government-owned properties according to BOE guidelines.26

RECOMMENDATION 9: Recognize lessor expenses when valuing possessory interests by the income approach as required by rule 21.27

RECOMMENDATION 10: Document possessory interest appraisals.....28

RECOMMENDATION 11: Value property that is owned by mutual water companies at a minimal value when those property values are included in the land they serve.30

RECOMMENDATION 12: Obtain documentation for all mutual water companies.....30

RECOMMENDATION 13: Return incomplete mineral production reports to taxpayer.....32

RECOMMENDATION 14: Document the appraisal unit used to compare the adjusted base year value with the current market value.....32

RECOMMENDATION 15: Document the components used in mining property appraisals.....33

RECOMMENDATION 16: Bring the mandatory audit program up to current status.34

RECOMMENDATION 17: Apply the section 463 penalty to both secured and unsecured business accounts.....36

RECOMMENDATION 18: Use Assessors' Handbook Section 581, as intended, when valuing older machinery and equipment.37

RECOMMENDATION 19: Properly classify machinery and equipment reported on business property statements.38

RECOMMENDATION 20: Properly assess personal property in apartments.39

RECOMMENDATION 21: Annually review manufactured home assessments for declines in value.42

RESULTS OF THE 1998 SURVEY

Appraiser Certification

We recommended that the assessor develop and adhere to a training plan for certified appraisal staff. Since the training unit of the BOE's Assessment Policy and Standards Division currently monitors the annual training required by section 670, we no longer address the issue of annual training completed in our assessment practices surveys.

Supplemental Assessments

We recommended that the assessor issue supplemental assessments on all new structural leasehold improvements whether on the secured or unsecured roll and for possessory interests assessed on the unsecured roll. We found no change in the assessor's practice. The assessor still fails to issue supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll.

California Land Conservation Act Properties (CLCA)

We recommended that the assessor review the staffing needs of the agricultural property valuation program. Current findings are that the assessor has an effective and thorough CLCA program augmented by a computer system that tracks market value and factored base year value for CLCA land.

Possessory Interests

We recommended that the assessor (1) review private uses of the county fairgrounds for taxable possessory interests and (2) revise the valuation of grazing leases by using agricultural capitalization rates, market rents, and animal unit months (AUM's). The assessor is assessing taxable possessory interests at the county fairgrounds and valuing grazing leases using appropriate capitalization rates and market rents, and uses AUM's as the unit of comparison.

In addition, we recommended that the assessor enroll the base year value of cable television companies for the appropriate assessment year. We found that the assessor is now in compliance.

Water Company Property

We recommended that the assessor identify and appraise all water company property. We found that the assessor has implemented our recommendation.

Petroleum Properties

We recommended that the assessor (1) adjust base year values for properties that have had reserve reductions beyond depletion; (2) recognize all revenue to the property when determining current market

value; (3) prorate the values of idle wells to reflect proved reserves; and (4) recognize abandonment expenses when they are expected to occur. We found that the assessor has implemented our recommendations.

Mining Properties

We recommended that the assessor: (1) include mineral rights in the appraisal unit; (2) reconstruct mineral appraisal worksheets to reflect the provisions of rule 469; (3) require that property statements submitted by mineral property owners be properly completed with all necessary information to perform an appraisal; and (4) document differences between reserves reported by the property owner and those used by an appraiser to value property. The assessor has implemented parts (2) and (4) of our recommendation. We repeat the other portions of the recommendation.

Audit Program

We recommended that the assessor bring his mandatory audit program current. While the assessor has made significant progress, we found that the assessor still does not complete his mandatory audits. Therefore, we repeat this recommendation.

Assessment Roll Changes

We recommended that the assessor follow statutory requirements when determining audit results and enrolling escaped assessments. The assessor has complied with this recommendation.

Business Property Assessment

We recommended that the assessor apply the section 463 penalty to secured business accounts. The assessor continues to apply the mandatory 10 percent penalty for late-filing or non-filing of business property statements *only* to unsecured accounts. We repeat this recommendation.

We also recommended that the assessor use the BOE's equipment index factors as recommended in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*. The assessor's practice is to use "representative" factors for various categories. Since the last survey, the BOE revised AH 581 to use average factors for each category of business property. We believe that the assessor's factors conform to this revised method and we will not repeat this recommendation.

OVERVIEW OF SANTA BARBARA COUNTY

Santa Barbara County is located approximately 100 miles northwest of Los Angeles and 300 miles south of San Francisco. It was established by an act of the State Legislature on February 18, 1850. The county encompasses 2,744 square miles, of which one-third are located in the Los Padres National Forest. Bordered on the west and south by the Pacific Ocean, Santa Barbara County has 110 miles of coastline. As of January 1, 2001, the California Department of Finance estimated the population to be 408,900, with seven incorporated cities: Santa Barbara, Santa Maria, Lompoc, Carpinteria, Guadalupe, Solvang, and Buellton. The City of Goleta was incorporated in 2002.

The Santa Barbara County Clerk-Recorder and Assessor will be referred to as the assessor in this report. Certain managers' time may be dedicated in part to other departments. However, each department has its own separate budget and the statistics presented below pertain exclusively to assessment functions.

The following table displays information pertinent to the 2002-03 assessment roll:

PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
<u>Secured Roll</u>		
Land and Mineral Rights		\$16,388,608,721
Improvements and Trade Fixtures		19,889,415,433
Personal Property		348,766,495
Less Mandated Secured Exemptions		(1,588,328,429)
Total Secured (Net of Exemptions)	122,101	\$35,038,462,220
<u>Unsecured Roll</u>		
Vessels		\$84,820,975
Airplanes		208,915,044
Land		157,730,968
Mineral Rights		2,651,186
Improvements		509,425,569
Personal Property		1,405,562,624
Trade Fixtures		206,057,023
Less Exemptions		(69,923,864)
Total Unsecured (Net of Exemptions)	24,376	2,505,239,525
Total Assessment Roll	146,477	\$37,543,701,745

The next table illustrates the growth in assessed values since the 1998-99 roll year:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE
2002-03	\$37,543,701,745	7.92%
2001-02	\$34,791,330,164	8.99%
2000-01	\$31,922,439,146	8.70%
1999-00	\$29,366,279,272	6.25%
1998-99	\$27,639,478,025	

ADMINISTRATION

This portion 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. We examined the assessor's budget and workload, appraiser certification, the State-County Property Tax Administration Program, assessment forms, exemptions, and disaster relief. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares for and presents assessment appeals, and processes racehorse tax returns.

Budget and Workload

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

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE
2002-03	\$3,637,046	-1.89%
2001-02	\$3,706,926	3.57%
2000-01	\$3,579,037	-2.13%
1999-00	\$3,656,844	3.58%
1998-99	\$3,530,421	N/A

The staff currently consists of the assessor, an assistant assessor, a chief appraiser, a residential appraisal division manager, a business appraisal division manager, an operations division manager (a certified appraiser position), 7 assessment supervisors, 23 appraisers, and 6 auditor-appraisers, in addition to technical support.

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. There are a total of 39 certified appraisers on staff, of whom 16 hold advanced certificates and 23 have permanent appraiser's certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the academic requirements referenced in section 670(d). The assessor does not use contract appraisers.

State-County Property Tax Administration Program

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

If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.⁴

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

In March 1996, Santa Barbara County elected to participate in the PTAP for the period beginning with the 1995-96 roll year. The assessor has used PTAP funds to reduce backlogs of new construction assessments, reappraisal transfers, mandatory business audits, decline-in-value assessments, assessment appeals, and field reviews. Funds have also been used for new information technology hardware, software, and related staff training. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

The Santa Barbara County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment for every year under contract.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of forms for the assessment of property for purposes of ad valorem property taxation. The BOE currently prescribes 74 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (e.g., size and color) of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form provided the assessor submits that form to the BOE for approval.

Assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, a penalty may not be imposed upon a property owner for the failure to file such forms and questionnaires.

⁴ The State-County Property Tax Administration Loan Program expired June 30, 2001. In 2001, the Governor approved AB 589 (Chapter 521, Statutes of 2001), establishing the State-County Property Tax Administration Grant Program for the fiscal years 2002-03 through 2006-07. The new grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

The BOE annually sends checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year and return the property statements and miscellaneous forms checklists by October 15 and the exemption forms checklist by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.

RECOMMENDATION 1: Timely submit the forms checklists and rearranged forms to the BOE for approval.

For the 2002-03 assessment year, we found that:

- Checklists were not submitted.
- Of the 74 BOE-prescribed forms, the assessor used 67.
- Of the 67 forms used, the assessor rearranged five.
- Of the five rearranged, only two were submitted for review.
- Both forms were submitted late.
- Both forms were returned to the assessor to correct errors, and corrected rearranged forms were not resubmitted for approval.
- Of the three rearranged forms not submitted for review, only one form would have been approved had it been submitted.
- Final prints of forms to be used by the assessor were not submitted.

We recommend that the assessor submit his checklists and rearranged forms timely to the BOE for approval.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This provision, implemented by section 206, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and necessarily required for church parking is exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for church-owned property as well as leased property meeting the requirements in section 206.1.

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes and owned or held in trust by corporations or other entities (1) that are organized and operated for those purposes; (2) that are non-profit; and (3) no part of whose net earnings inure to the benefit of any private shareholder or individual. The Legislature has acted upon

such authorization by enacting the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship and school purposes.

The assessor processed 48 church exemption claims and 266 religious exemption claims for the 2002-03 assessment roll. The following table illustrates religious and church exemption data for the last five years:

YEAR	RELIGIOUS		CHURCH	
	NUMBER	VALUE	NUMBER	VALUE
2002-03	266	\$136,620,838	48	\$12,010,354
2001-02	266	\$129,128,479	40	\$13,448,594
2000-01	278	\$133,809,243	34	\$12,994,421
1999-00	212	\$128,891,266	44	\$11,445,487
1998-99	214	\$121,838,116	39	\$8,891,696

County assessors administer the church and religious exemptions. The religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption. However, the church exemption and the church parking exemption require an annual filing of the exemption claim. We found no problems with the assessor's religious exemption program, however, we did find a problem with his church exemption program.

RECOMMENDATION 2: Grant the church exemption only to churches that file an annual affidavit as required by section 255.

The assessor grants the church exemption to properties when an affidavit has not been annually filed.

Section 255 provides that to be eligible for the full (100 percent) church exemption, the claim form must be filed with the assessor by February 15 each year. When an organization fails to file an annual claim for the church exemption, the assessor must then enroll an assessment for the property. By granting the exemption without the affidavit, the assessor is granting a property tax exemption without authority.

We recommend that the assessor grant the church exemption only to churches that file an annual affidavit as required by section 255.

Welfare Exemption

The welfare exemption is available for property used exclusively for religious, hospital, scientific, or charitable purposes that is owned and operated by community chests, funds, foundations, or corporations organized and operating for those purposes. If the property is owned by one qualified

organization and used by another qualified organization more than once per week, then both must file a claim for the property to receive the exemption.

The welfare exemption is co-administered by the BOE and county assessors, and the claim must be approved by both agencies. An annual filing of the exemption claim with the assessor is required. The assessor reviews the claim and forwards a copy to the BOE. BOE staff reviews the claim and notifies the assessor of approval or denial.

When the welfare exemption is claimed on a property for the first time, copies of the organization's articles of incorporation, tax-exempt letters, and financial statements must be submitted with the claim. The assessor reviews the claim form and the attached documents for completeness and compliance with the requirements for exemption. The assessor also performs a field inspection to verify that the information on the claim form is correct and that the property is used exclusively for religious, hospital, scientific, or charitable purposes and activities. When the claim form, other required documents, and field inspection are complete, the assessor forwards a copy of those items to the BOE along with a recommendation for approval, partial approval, or total denial.

An assessor cannot grant a welfare exemption that has been denied by the BOE, but may deny an exemption that was approved by the BOE.

The assessor's administrative assistant processes annual welfare exemption claims. The following table shows welfare exemption data taken from the 1998-99 through 2002-03 assessment rolls.

YEAR	WELFARE	
	PROPERTIES	VALUE
2002-03	792	\$979,613,185
2001-02	703	\$886,832,532
2000-01	652	\$806,258,254
1999-00	501	\$818,661,628
1998-99	437	\$775,797,561

We have no recommendations for this section.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assessees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared by the Governor to be in a state of disaster, or to a misfortune or calamity that

was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

The board of supervisors revised the county's disaster relief ordinance on October 20, 1998, to create a continuing ordinance rather than one limited to specific disasters. For assessment years 2001 and 2002, the county processed approximately 36 disaster relief claims, completing on the average 18 claims per year. We reviewed 6 of the 36 claims and found that the assessor handled each case properly.

RECOMMENDATION 3: Obtain fire reports from local fire departments to discover property damaged or destroyed by a misfortune or calamity.

We found that the assessor 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 and help the assessor maintain accurate records.

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

We recommend that the assessor obtain fire reports from local fire departments to timely discover property that has been damaged or destroyed.

RECOMMENDATION 4: Grant disaster relief for all qualifying misfortunes or calamities as provided in rule 139.

We found that the assessor administratively denied applications for disaster relief to assessees whose properties may have suffered a diminution of value as a result of restricted physical access caused by the terrorist attacks of September 11, 2001.

Under section 170, the term "damage" includes a diminution in value resulting from restricted access caused by the misfortune or calamity. Rule 139, adopted June 15, 2002, by the BOE, clarified that "restricted access" includes suspension of normal business activities as a result of compliance with a governmental action. Rule 139 provides an example that specifically discusses the application of section 170 where airport access was restricted following the terrorist attacks of September 11, 2001.

We recommend that the assessor grant disaster relief for qualifying misfortunes or calamities as provided in section 170 and rule 139.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute. All assessment roll changes are based on 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 on the original roll, for any reason. 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.

We reviewed a number of roll changes and the assessor's roll change process and procedures. The working papers include original and revised values, reasons for the correction, applicable statutory provisions, the appraiser's signature, supervisor's review and signature, and verification from the auditor. The assessor's procedures comply with the applicable Revenue and Taxation Code sections.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal 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.

The Santa Barbara County Board of Supervisors appoints the assessment appeals board. The assessment appeals board consists of three members and two alternate members. All assessment appeals are prepared and presented by the chief appraiser. Appeals are heard the first and third Thursday of each month.

The following table illustrates the assessments appeal workload for the last five years:

FISCAL YEAR	2002-03	2001-02	2000-01	1999-00	1998-99
Total appeals	473	361	399	300	488
Open	456	51	1	2	1
Withdrawn	10	158	195	168	277
Denied	0	37	44	12	47
Stipulated	7	90	115	96	139
Reduced	0	5	15	11	10
Upheld	0	20	28	7	13
Increased	0	0	1	4	1

The assessor is proactive in taxpayer education, which may eliminate issues that would otherwise lead to a larger volume of assessment appeals. We found that the assessor and the county board of equalization work closely together to ensure that all appeals are tracked and heard within the required two-year time frame. The assessor properly administers the assessment appeals program.

Racehorse Tax Returns

Racehorses domiciled in California are subject to an annual tax in-lieu of ad valorem property tax.

Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms, including the auditing of racehorse accounts, are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

RECOMMENDATION 5: Audit racehorse accounts as required by rule 1045.

We found two racehorse accounts that have never been audited despite having a gross tax liability of more than \$2,000 in each of the last four years.

Rule 1045(a)(3) requires the assessor to audit the tax records of any racehorse owner with a gross tax liability (before addition of any penalties) that exceeds \$2,000 for each of four consecutive calendar years. When performing an audit pursuant to this rule, the assessor is also required to audit the taxpayer's records pertaining to personal property taxes on property having situs at the same location.

We recommend that the assessor audit qualifying racehorse accounts as required by rule 1045.

ASSESSMENT OF REAL PROPERTY

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

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

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

As of October 2002, the assessor's staff assigned to perform the duties of the real property program consisted of one appraisal division manager, four assessment supervisors, and 23 appraisers. The real property appraisal staff is also responsible for the assessment of manufactured homes. This subject is discussed in the *Assessment of Personal Property and Fixtures* section of this report.

Appraisal crews are organized by function and by geographic area. Each crew has a computerized sales database and worksheets that are customized by property type. Appraisal crews are assigned to offices in Santa Barbara, Santa Maria, and Lompoc.

Change in Ownership

Section 50 requires the assessor to establish a base year value for real property upon a 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 reappraisal purposes.

Document Processing

The assessor's primary means of discovering properties that have changed ownership is by deeds and other documents recorded at the county recorder's office. Deeds and other recorded documents that transfer ownership in real property are imaged daily by the recorder and sent to the assessor through the

Assessor's Property System (APS). Santa Barbara County has an ordinance requiring that deeds include the assessor's parcel number (APN).

The assessor also receives the Form BOE-502-A, *Preliminary Change of Ownership Reports* (PCOR), completed by the assessee at the time of recording and conveyance. Approximately 85 percent of the transferred documents are accompanied by a PCOR. The assessor sends Form BOE-502-AH, *Change of Ownership Statement* (COS), to transferees who did not complete a PCOR. The COS's mailed for fiscal year 2001-02 totaled 2,366, with approximately 85 percent being returned. The auditor levies a penalty for the remaining 15 percent.

The transfer section consists of four legal document specialists and one supervisor. This section verifies information on the deed, identifies ownership changes and the percent of ownership interest transferred, and posts all deed information to the APS. The operations section pulls the appraisal file, matches the PCOR and the COS with the files, and distributes the package to the appraisers for valuation.

After all appraisal work has been completed and reviewed, the new values are posted to the APS and notices of supplemental assessment are generated. The appraisal package is then returned to the operations unit for filing.

The following table shows the total number of documents received from the recorder that potentially transfer ownership in real property for the last five years:

ASSESSMENT YEAR	TRANSFER DOCUMENTS
2002-03	15,399
2001-02	21,079
2000-01	17,720
1999-00	19,155
1998-99	19,418

The number of documents received from the recorder has remained relatively stable over the last five years, averaging about 18,500 annually. About 40 to 50 percent of these documents result in reappraisals.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides additional detail about the application of section 64.

Since there is usually no recorded notice of the transfer of an interest in a legal entity, discovery of changes in ownership resulting from such transfers is often difficult.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or changes in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, assessor's parcel numbers, or the number of parcels they own. Because of the lack of reliable data provided by the entities, the LEOP unit advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.

We found no errors pertaining to identifying and enrolling LEOP changes in ownership. We also checked the corresponding business property statements (BPS) for early discovery of changes in control by the assessor. During the BPS processing stage, the BPS's are reviewed for reported changes in control by the taxpayer. If a change in control is reported, a copy of the BPS is forwarded to the designated appraiser for review and valuation.

The assessor properly reviews BPS's and correctly processes and assesses changes in control.

Parent/Child Transfers and Base Year Value Transfers

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

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

For fiscal year 2000-01, the assessor processed 350 section 63.1 and 104 section 69.5 claims. For fiscal year 2001-02, the assessor processed 716 section 63.1 claims and 89 section 69.5 claims. Except as otherwise indicated below, we found the assessor's procedures for handling section 63.1 and section 69.5 claims to be consistent with statutory provisions. In general, claims are carefully reviewed and property owners are notified of the results in a timely manner.

RECOMMENDATION 6: Accept only completed section 63.1 claims.

We found that the assessor accepts incomplete section 63.1 claims. Specifically, the assessor does not request additional information when the section of the claim form that requests information concerning the transfer of real property other than the principal residence of the transferor is left blank.

Section 63.1(d)(1) provides that the exclusions from reappraisal shall not be allowed unless the eligible transferee or legal representative files a claim with the assessor and furnishes certain information. This

includes detailed information on the transfer of real property other than the transferor's principal residence. The purpose of this requiring this information is to ensure that the transferor does not exceed the one million dollar (\$1,000,000) exclusion limit for real property other than the transferor's principal residence. By accepting incomplete claims, the assessor does not obtain the information needed to ensure that the transferor is complying with the law.

We recommend that the assessor accept only completed section 63.1 claims.

Partial Interest Transfers/Valuation Procedure

When a fractional change in ownership occurs, the portion that changes ownership is given a new base year value based upon its current market value as of the date of the change in ownership. The portion that did not change ownership retains its existing base year value. The assessor's transfer section identifies and inputs the percentage of the partial interest that has transferred. The appraiser verifies the prior base year values and inputs a new market value. Finally, the computerized partial interest program computes the new roll value and generates the supplemental assessment. We found the program to be well designed and efficient in expediting the assessment of partial interest transfers.

New Construction

For newly constructed real property, section 71 requires the assessor to determine a new base year value upon the date of completion of construction. If the new construction is in progress on the lien date, it is valued at its current market value. Rule 463 governs the assessment of new construction by interpreting and making more specific the requirements of section 71. Chapter 6 of Assessors' Handbook Section 502, *Advanced Appraisal*, provides additional guidance for assessing new construction.

Discovery

The staff discovers most new construction from building permits. The assessor annually receives between 6,000 and 7,000 permits from the nine permit-issuing agencies (i.e., the cities of Buellton, Carpinteria, Goleta, Guadalupe, Lompoc, Santa Barbara, Santa Maria, Solvang, and the County of Santa Barbara). Other discovery methods include reviews of business property statements, aerial photography, completion reports for water well construction issued by the Santa Barbara County Public Health Department, and field canvassing.

Aerial photography is especially helpful. Aerial photographs of the entire county have been loaded into the APS. These photos enable the appraisers to view any parcel to look for changes in the shape of primary buildings or for new outbuildings. They are particularly helpful in discovering construction on agricultural land.

In addition, the City of Santa Barbara's building department routinely inspects homes having a pending transfer in escrow, looking for construction completed without a permit. When the building department finds an illegal project, they issue an "as built" permit and furnish a copy of it to the assessor.

The following table displays the assessor's new construction workload for fiscal years 1998-99 through 2001-02:

FISCAL YEAR	PERMITS RECEIVED	PERMITS RESULTING IN NEW ASSESSMENTS	CONSTRUCTION DISCOVERED WITHOUT PERMITS
2001-02	Unavailable	3,154	Unavailable
2000-01	6,060	4,008	110
1999-00	6,000	2,735	200
1998-99	6,959	5,300	500

Permit Processing

The assessor receives copies of building permits and building plans from every building department in the county. All building departments note the appropriate assessor's parcel number (APN) on the permits, as required by county ordinance.

A legal document specialist screens the permits and the supervisor reviews the specialist's decisions. For permits with potential assessable new construction, the specialist enters the property's APN, the name of the permit-issuing agency, the permit number, the type of construction, and any pertinent remarks into the computer system. The rest of the permits are culled. Those permits with potentially assessable new construction and the appropriate property files are forwarded to an appraiser.

The assessor sends construction questionnaires to owners of all properties having building permits with potential new construction. In addition to cost information, letters sent to owners of income-producing properties request income and expense information. The assessor estimates that 70 to 75 percent of the owners of both residential and commercial property respond to these questionnaires.

New Construction Valuation

Since the assessor believes that actual/market data is more accurate than cost estimates from cost guides, especially in the high priced southern part of the county, he has established a cost database of actual/market construction costs in the county. He uses these costs to value residential new construction.

The assessor uses either market data or the *Marshall Valuation Guide* to value new construction on agricultural and smaller commercial properties. For new large commercial projects, the assessor uses the three major valuation approaches, i.e., cost, sales comparison, and income.

Overall, our review indicates that the assessor does a good job of valuing completed new construction and the new construction program is well administered.

Supplemental Assessments

Sections 75 et seq. require the assessor to issue an additional assessment (i.e., a supplemental assessment) to reflect an increase or decrease in assessed value resulting from a change in ownership or new construction. The tax bill for this additional assessment covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction.

Supplemental assessments are computer-generated. The entire supplemental assessment process, from reappraisal event date to enrollment, takes approximately one month. The following table shows the number of supplemental assessments processed by the assessor and the total taxable value generated from such assessments for the last five years:

ASSESSMENT YEAR	NUMBER OF RECORDS	TAXABLE VALUE
2001-02	10,178	\$1,614,829,958
2000-01	10,234	\$1,832,477,390
1999-00	11,216	\$1,433,770,110
1998-99	10,019	\$971,360,056
1997-98	9,340	\$785,814,445

We found that the assessor's supplemental assessment processing program is current and the supplemental assessments are accurate. However, we found one problem with the supplemental assessment program.

RECOMMENDATION 7: Make supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll.

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

Section 75.5 provides that all real property and manufactured homes are subject to supplemental assessment except for certain fixtures and certain newly created taxable possessory interests. In our prior survey, we recommended that supplemental assessments be enrolled for leasehold improvements assessed on the unsecured assessment roll. The assessor has not implemented this recommendation. We also found that no supplemental assessments were made for possessory interests assessed on the unsecured roll.

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

Decline in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value, as defined in section 110. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value. (See Assessors' Handbook Section 501, *Basic Appraisal*, p. 140).

The assessor discovers properties that are experiencing declines in value through taxpayers' requests for reviews and appraisers tracking market value trends in their assigned geographical areas. The following table shows the number of decline-in-value assessments processed for the most recent five years.

ASSESSMENT YEAR	NUMBER OF DECLINE-IN-VALUE ASSESSMENTS
2002-03	542
2001-02	1,818
2000-01	10,926
1999-00	16,293
1998-99	13,800

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor to prior year's taxable value. These assessments are reviewed annually by the appraiser responsible for the geographical area. If an appraiser wishes to change the reduced value, he or she must make a current market value appraisal of that property, compare that value to the factored base year value, and enter the lower of the two values on the appraisal record.

We found that the records for decline-in-value assessments are well documented and complete and the values were well supported. We found that the assessor has an effective and thorough program of annually reviewing and adjusting real property assessments to reflect declines in value.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. In exchange for assessment at a

restricted value, property owners in an agricultural preserve enter into a contract to restrict the use of their lands for agriculture and compatible uses.

Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communication facilities). Such lands are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 govern the assessment of land subject to CLCA contracts. Assessors' Handbook Section 521 (AH 521), *Assessment of Agricultural and Open-Space Properties*, provides BOE-approved guidance for the appraisal of these properties.

Santa Barbara County has approximately 550,000 acres under CLCA contract. In addition, the county has approximately 134 acres under the Farmland Security Zone (FSZ) contracts, which are more restrictive but provide greater assessment benefits than the normal CLCA contracts.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by an analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce and subtract the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as communication facility sites, and recreational uses such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross economic income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents. Moreover, while a management charge is generally applicable to both types of income stream, this charge will normally be less in a cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return (recapture) of the value of such improvements.

Capitalization Rates

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

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

We found that the assessor has an effective and thorough CLCA program.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from taxation any property owned by local governments, except as provided in section 11 of article XIII. Under article XIII, section 11 of the California Constitution, land located outside a local government's boundaries is taxable if it was taxable at the time it was acquired by the local government. Improvements on such lands are taxable if they were taxable when acquired or if they were constructed to replace improvements that were taxable when acquired. These lands and taxable improvements are commonly referred to as *Section 11* properties.

There are 61 Section 11 properties enrolled in Santa Barbara County. The total assessed value for Section 11 properties for roll year 2002 (land and improvements) is less than \$2.3 million, which represents only 0.00589 percent of the locally-assessed roll. Valuation of a public entity transfer is handled the same as any other transferred property. Once identified by the transfer section, the transfers are verified by the mapping section and forwarded to the real property staff for valuation. The assessor has a specialized computer program that is used to annually update the factored land value of each Section 11 property.

RECOMMENDATION 8: Assess taxable government-owned properties according to BOE guidelines.

We found that the assessor was not following the Section 11 assessment guidelines provided in LTA 2000/037. The current assessments reflect guidelines that have been superseded.

In LTA 2000/037 (June 15, 2000), the BOE provides its most up-to-date guidance for the assessment of Section 11 properties. The new guidelines provide that base year values of Section 11 properties acquired after March 1, 1975, are established at the lower of current fair market value as of the date of change in ownership or the 1967 assessed value multiplied by a factor derived from a formula prescribed in article XIII, section 11 of the California Constitution and annually supplied by the BOE, as of the date of change in ownership. In addition, the guidelines provide that Section 11 properties are not

subject to supplemental assessments. The assessor was unaware of these revisions, but has implemented procedural changes to ensure that the 2003-04 roll will reflect the changes.

We recommend that the assessor assess Section 11 properties according to the guidelines provided in LTA 2000/037.

Possessory Interests

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

The following table illustrates the number of PI assessments and their assessed values for the last five years:

FISCAL YEAR	NUMBER OF ASSESSMENTS	TOTAL ASSESSMENT VALUE
2002-03	2,705	\$343,127,756
2001-02	2,707	\$284,915,130
2000-01	2,437	\$235,463,729
1999-00	2,570	\$265,486,541
1998-99	2,437	\$234,935,157

The assessor implemented the BOE's prior survey recommendation to value grazing leases using appropriate capitalization rates and market rents and to use animal unit months (AUM's) as the unit of comparison. However, we found two areas where the assessor may improve the PI assessment program.

Lessor Expenses

RECOMMENDATION 9: Recognize lessor expenses when valuing possessory interests by the income approach as required by rule 21.

When using the income approach to value possessory interests, we found that the assessor typically capitalizes the actual contract rent without making any deductions from gross rent for management and other operating expenses incurred by the public lessor.

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

Capitalizing the gross income rather than the net income to the lessor overstates the full cash value of a PI. Typical expenses such as management should be recognized, in addition to any other lessor expenses specifically stated in the lease agreement.

We recommend that the assessor deduct appropriate lessor expenses when using the income approach to value possessory interests.

Documentation

RECOMMENDATION 10: Document possessory interest appraisals.

We found that some important information was often not documented either in the possessory interest files or in the computer system. For some of these properties, we could not determine how the base year value was established, what anticipated term of possession was used in the appraisal, or when the PI was due for reappraisal.

This information is needed in order for management to review the appraisal and for the assessor to explain the appraisal to the property owner. In addition, it is crucial that the assessor is aware of the reappraisal date of the possessory interest. This date is usually the end of the stated term of possession or the anticipated term of possession. This is the date of the change in ownership of the possessory interest. Because of inadequate documentation, the assessor has overlooked some reappraisable events resulting in incorrect assessments.

We recommend that the assessor document the possessory interest appraisals.

Leasehold Improvements

Assessors' Handbook Section 504 (AH 504), *Appraisal of Personal Property and Fixtures*, provides that leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Leasehold improvements include structure items and fixtures paid for by the lessee. Such improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant on the unsecured assessment roll.

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

When real property is reported on the business property statement, coordination between the assessor's real property and business property staff is important. The reported cost should be examined by both a real property appraiser and an auditor-appraiser. The appraisers should determine the proper classification of the property to ensure appropriate assessment and avoid escapes and double assessments. The appraisers 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 if additions are properly enrolled. Additionally, the appraisers must agree on who should assess each item, otherwise escapes or double assessments may result.

We have no recommendations for this well-managed program, although we did encounter a related problem with supplemental assessments. Please see that section for a discussion.

Water Company Property

Water company property assessed on the local tax roll may include property owned by private water companies and mutual water companies. Portions of government-owned water systems may also be taxable. Each type presents different assessment problems.

In our prior survey, we recommended that the staff identify and appraise all water company property in the county, citing Santa Barbara County Environmental Health Services as a potential source for information about water companies operating in the county. In response to this recommendation, the assessor has obtained a copy of water company properties from health services. We found that the assessor uses this list to discover assessable water company property.

Additionally, in our prior survey, we commented that the assessor did not have a system for tracking the assessments of water company properties. The assessor now tracks utility water company property and water rights. For the 2002-03 fiscal year, the assessor enrolled 426 utility water company parcels with real property assessed at \$9,160,699. However, the assessor still does not track mutual water company properties.

Mutual Water Companies

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

Mutual water company shares are typically appurtenant to the parcels that the company serves. In such cases, the assessed values of these parcels include the value of the mutual water company assets.

RECOMMENDATION 11: Value property that is owned by mutual water companies at a minimal value when those property values are included in the land they serve.

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 sale prices.

Assessors' Handbook Section 542 (AH 542), *Assessment of Water Companies and Water Rights*, 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. This takes into account the matter of water availability, i.e., share ownership, when buying served property. Thus, if the assessor values the served land at the sales price, the value of the mutual water company properties is included in the value of the served land.

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 sale prices, double assessments will result.

We recommend that the assessor value property that is owned by mutual water companies at a minimal value when those companies' property values are included in the land they serve.

RECOMMENDATION 12: Obtain documentation for all mutual water companies.

The assessor failed to obtain any documents establishing the mutual water companies in the county. These documents include articles of incorporation, bylaws, a list of all parcels served, complete with owners' names, and a list of the parcels, improvements, and distribution systems owned by the company. Much of the information that must be considered by an appraiser when valuing the company's property are contained in these documents. Without this data, it is difficult to determine the taxable value of a mutual water company.

We recommend that the assessor obtain documentation for all mutual water companies.

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. 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. Following this court ruling, the Legislature added sections 401.8 through 401.12, governing county assessors in the valuation of intercounty pipeline lands and rights-of-way.

The county has six right-of-way pipeline assessments on the 2002-03 roll with a total assessed value of \$3,032,288. The assessor maintains a separate base year value for each separate right-of-way interest, but assesses each taxpayer's intercounty pipeline rights-of-way to a single countywide parcel in accordance with section 401.8(a). Additionally, each assessee files a report on Form BOE-571-RW

(Right-of-Way Property Statement) as required. The assessor is utilizing the current version of the form.

Our review of the assessor's pipeline rights-of-way program indicates that it is well maintained and in accordance with sections 401.8 through 401.12.

Mineral Properties

Santa Barbara County produces oil and gas both onshore and offshore and has several other types of mineral producing properties located within its boundaries, including sand and gravel, slate, dimension stone, diatomite, silica, and shale. The county ranks seventh among California's counties in oil production, producing about 1.5 percent of the state's annual volume. The supervisor in charge of Minerals/Audits performs the mineral appraisals. This is the same person who has prepared these appraisals in past years. The county retains mineral consultants as needed to assist with appeals.

Petroleum Properties

Rule 468, subdivision (a) specifically provides that the right to remove minerals from the earth is a taxable real property interest. Changes in the recoverable amounts of minerals will change the value of that interest. Proved reserves are defined and the steps to ensure that property values are estimated in accordance with article XIII and article XIII A of the California Constitution are detailed in rules 468 and 469.

Pursuant to rule 468, the base year value for proved reserves must be adjusted annually to account for production and other changes to proved reserve numbers and new construction and equipment removal must be accounted for.

In our prior survey, we recommended that the assessor: (1) adjust base year values for properties that have had reserve reductions beyond depletion; (2) recognize all revenue to the property when determining current market value; (3) prorate the value of idle wells to reflect proved reserves; and (4) recognize abandonment expenses when they are expected to occur. We found that the assessor has implemented all parts of our recommendation. We found no additional problems with the petroleum assessment program and have no recommendations.

Mining Properties

Rule 469(b) provides that the rights to enter upon land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value. Each subsection of the rule thereafter specifically sets forth what to value and how a mine reaches the point of producing income.

In adopting rule 469, the BOE determined that, because of the unique nature of mineral interests and the requirements of article XIII A of the California Constitution, the assessor must select the one point in time when the mineral right will be valued by reference to proved reserves. Once the base year value is established, it cannot be increased except as permitted under article XIII A.

In our prior survey, we recommended that the assessor: (1) include mineral rights in the appraisal unit; (2) reconstruct mineral appraisal worksheets to reflect the provisions of rule 469; (3) require that property statements be completed with all necessary information to make an appraisal; and (4) document differences between reserves reported by the property owner and those used by an appraiser to value the property. We found that the assessor has implemented only the second and fourth portions of our recommendation. We repeat the other two parts of the recommendations.

RECOMMENDATION 13: Return incomplete mineral production reports to taxpayer.

We found that the assessor accepts incomplete production reports. A review of the production reports filed for mining operations in the county revealed that one operator consistently fails to report all information requested on the Form BOE-560-A, *Aggregate Production Report*.

In addition, this operator fails to provide information to the assessor under a section 441(d) request. This operator also failed to provide information to other assessors. If this operator or other operators refuse to properly complete a property statement, section 441(g) provides that the assessor may refuse to accept the statement.

If the taxpayer fails to complete a property statement required by section 441, the assessor shall add a section 463 penalty to the current roll. This will ensure that the operators are aware of their legal responsibility to provide relevant assessment information.

We recommend that the assessor return incomplete production reports to the taxpayer.

RECOMMENDATION 14: Document the appraisal unit used to compare the adjusted base year value with the current market value.

We found that the assessor does not indicate the components of the appraisal unit used in determining the taxable value of mining properties including mineral rights, which was the basis of the first part of the recommendation in the prior survey. There is no indication from the assessor's records that all components of the appraisal unit were included.

Rule 469(e)(2)(C) provides that in determining the value to enroll, the assessor must compare the current market value to the adjusted base year value of the appraisal unit. For mineral properties, the appraisal unit is defined as land, improvements, fixtures, and reserves. To ensure compliance with rule 469, the assessor must document the appraisal unit.

This consolidation of the appraisal unit requires coordination between the assessor's real property staff and the business property staff. This treatment of fixtures is different than what is normally done for other types of property, where fixtures and personal property are treated as a separate appraisal unit.

We recommend that the assessor include and document mineral rights in the mineral property appraisal unit used in determining the value to enroll.

RECOMMENDATION 15: Document the components used in mining property appraisals.

We found that the assessor used royalty rates in the mining appraisals that were not documented and were contrary to the rates reported by taxpayers. There was no documentation in the appraisal indicating why different rates were used. In addition, the assessor indicated that he had no studies to explain the rates used in his appraisal.

Mineral property owners report royalty rates to the assessor. In Santa Barbara County, if the reported rates actually represent the markets rates for the minerals, the assessor has significantly undervalued the mineral rights. One sand and gravel owner reported a royalty twice the amount used by the assessor. Another reported a royalty rate that was seven percent of the sales price, while the royalty rate used by the assessor was only one percent of the sales price.

Because of the complexity of the types of mining property and the scarcity of information, assessors should place great weight on the statements filed by the taxpayers. This is a primary source of expert information that assists the valuation function. While all mineral appraisers should develop alternate sources of information, the best source about a subject property is always the taxpayer. Any deviations from the information reported by the taxpayer need to be documented and explained, particularly when the royalty method is used to value mineral rights.

We recommend that the assessor document the components used in his appraisal.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

An 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.

As of October 2002, 10 positions of the assessor's staff were assigned to the business property program: an appraiser division manager, seven auditor-appraisers, and two assessment technicians.

Annually, the assessor's business property staff values about 24,500 accounts, including 627 aircraft and 7,012 vessels, and performs an estimated 350 audits. The total value of the unsecured property assessments, including trade fixtures, on the 2002-03 assessment roll was approximately \$2.6 billion.

Audit Program

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

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.

The assessor has a total workload of approximately 1,400 mandatory audits, or an average of about 350 audits per year.

RECOMMENDATION 16: Bring the mandatory audit program up to current status.

The assessor does not complete his mandatory audit workload in a timely manner. This was a recommendation from our prior survey.

The following audit workload table shows that there are still a substantial number of audits carried over from prior years.

AUDIT WORKLOAD	2002-03	2001-02	2000-01	1999-00	1998-99
Audits Scheduled					
Mandatory	372	404	270	233	334
Nonmandatory	13	29	28	20	19
Total Scheduled	385	433	298	253	353
Carried Forward	426	291	212	233	173
Total Audits	811	724	510	486	526
Audits Completed					
Mandatory	79	284	212	267	286
Nonmandatory	1	14	7	7	7
Total Completed	80	298	219	274	293
Carried Forward	731	426	291	212	233

By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

We recommend that the assessor bring the mandatory audits to current status.

Nonmandatory Audits

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

The assessor completed some nonmandatory audits as indicated in the previous table and the quality appears to be very good. We found no problems with the assessor's nonmandatory audit program.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should

include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the business property.

We reviewed 21 audits and noted that all audits are well documented, concise, and contained good audit trails.

Business Property Statement Program

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

Section 463 Penalty

RECOMMENDATION 17: Apply the section 463 penalty to both secured and unsecured business accounts.

The assessor continues to apply the section 463 penalty only to unsecured accounts when taxpayers either file the property statements late or fail to file at all. The Assessor's Property System (APS) for the unsecured property roll calculates the section 463 penalty and adds it to the assessed value. However, the APS does not calculate the section 463 penalty for secured accounts.

Section 463 provides that a penalty of 10 percent of the assessed value shall be added to the assessment on the current roll if an assessee fails to complete a property statement as required by section 441. By applying the section 463 penalty only to accounts on the unsecured roll, the assessor is not treating all assessees in a uniform and equitable way and not complying with statutory provisions. In addition, revenues are lost by the assessor's failure to add the penalty to secured accounts.

We recommend that the assessor apply the section 463 penalty to both secured and unsecured business accounts.

Equipment Index and Percent Good Factor

The BOE annually furnishes equipment reproduction cost index and percent good factors to assessors in Assessors' Handbook Section 581 (AH 581), *Equipment Index and Percent Good Factors*. This handbook section contains several tables of equipment indexes, depreciation tables, and valuation factors that aid in the mass appraisal of various types of business property and fixtures.

RECOMMENDATION 18: Use Assessors' Handbook Section 581, as intended, when valuing older machinery and equipment.

The assessor currently uses unsupported minimum percent good factors for commercial, industrial, agricultural, and construction equipment. He has no documentation to support these minimum percent good factors. These factors are based on a position adopted by the California Assessors' Association (CAA), which were calculated without a study.

The CAA tables employed by the assessor use the AH 581 percent good factors except that they employ unsupported minimum percent good factors for older equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service remaining.

The percent good factors in AH 581 are based on the assumption that as business equipment ages, it gradually loses its ability to earn a profit for its owner. In some cases, equipment wears out physically to the point where it is not cost-effective to repair it. In other cases, the equipment may be in excellent condition physically but new technology, a changing market relative to the type of equipment, and other factors make the equipment obsolete.

Some equipment, when no longer cost-effective to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal. The AH 581 factors assume that, on average, equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to one percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment but is still in use.

There is no question that some older equipment is worth much more than 1 percent of reproduction cost new, just as some newer equipment is worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to find fair market value.

However, when using a mass appraisal tool such as the AH 581 tables, it is important to use the tables as presented. Use of unsupported minimum percent good factors may value some equipment correctly but will substantially overvalue most items of older equipment.

Accordingly, we recommend that the assessor use the AH 581 as intended in order to avoid overvaluations.

Classification

Machinery and equipment must be classified either as personal property or as fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely.

RECOMMENDATION 19: Properly classify machinery and equipment reported on business property statements.

We found instances where all the machinery and equipment reported on a business property statement was improperly classified as personal property. In addition, we found that some automated teller machines (ATM's) were incorrectly classified as fixtures regardless of the method of attachment.

Classification is an important element of the local assessment function for several reasons. Principally, it is important because property tax law requires the assessment roll to show separate values for land, improvements (including fixtures), and personal property. It is also significant because of the differing assessment treatment for real property vis-à-vis personal property. Those differences include the following:

- only real property receives special assessments,
- personal property is appraised annually at market value, and
- fixtures are a separate appraisal unit when measuring declines in value.

Improper classification of machinery and equipment can affect how property is taxed. The failure to properly classify equipment either as fixtures (real property) or personal property can result in an improper assessment for that equipment because real property is subject to the provisions of article XIII A of the California Constitution.

Proper classification of ATM's is even more important because it determines taxability. ATM's owned by banks and financial institutions, and classified as personal property, are exempt from property tax. Section 27 of article XIII of the California Constitution provides that banks and financial institutions be taxed according to or measured by the net income or an in-lieu franchise tax. This franchise tax is in-lieu of all other taxes and license fees except for taxes on real property.

Rule 122.5 provides that ATM's owned by banks and financial institutions should be classified as personal property when they are freestanding and movable. An ATM is classified as a fixture if it is installed in a structure that was built primarily for the purpose of housing the ATM.

We recommend that the assessor properly classify machinery and equipment reported on the business property statements.

Computers

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued in AH 581, Table 6: Computer Valuation Factors, valuation factors for valuing computers.

We found that the assessor correctly values computers using the BOE-recommended valuation factors.

Leased Equipment

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

We found that the assessor is in compliance with generally accepted assessment practices relating to the assessment of leased equipment. The assessor compares the data reported on lessors' business property statements with the data reported on the lessees' business property statements to ensure that there are no double or escape assessments. We have no recommendations in this area.

Apartment Personal Property

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.

RECOMMENDATION 20: Properly assess personal property in apartments.

We found a number of cases where the assessor deviated from the costs reported on the business property statements in assessing apartment personal property without any supporting documentation.

Information supplied on Form BOE-576-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.

If the assessor must make an estimated assessment, the assessor should analyze the data available to him through the property statements and document the estimate on the appraisal.

We recommend that the assessor base his assessment of apartment personal property on information submitted on the business property statements or document alternative assessment methodologies.

Aircraft

General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be

used by the assessor. 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* as an alternate for aircraft not listed in the *Bluebook*. The Santa Barbara County Assessor uses the *Bluebook* as the basis for his aircraft appraisal. When actual aircraft costs are available, the assessor enrolls the cost only when it is within the value range indicated by the *Bluebook*.

The assessor valued approximately 579 general aircraft on the 2002-03 roll with a total value of \$206,815,044. Two auditor-appraisers and two appraisal technicians are responsible for these assessments. The assessor discovers aircraft through the airport manager's hangar report, airport operators' tenants' lists, other counties' referrals, Federal Aviation Administration reports, and physical inspections.

We found the aircraft assessment program to be in proper order.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers and air taxis that are operated in scheduled air taxi operations. Unlike general aircraft, which are normally assessed 100 percent at the place where they are habitually located as of the January 1 lien date, the assessment of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time, and arrivals and departures during a representative period designated by the BOE. Certificated aircraft are valued pursuant to the methodologies described in section 401.15.

There are seven airlines operating in Santa Barbara County. One auditor-appraiser and two appraisal technicians are responsible for these assessments. We found no problems with the certified aircraft assessment program.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

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

The assessor granted 48 historical aircraft exemptions with a combined value of \$1,840,400 for the 2002-03 assessment roll. We examined five historical aircraft exemptions and found no problems with the program.

Vessels

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

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

The assessor's business property division assessed 7,012 vessels on the 2001-02 assessment roll, with a total assessed value of \$84,820,975. The primary discovery sources are Department of Motor Vehicle (DMV) reports, marina lists, referrals from other counties, and an annual field canvass.

We reviewed the assessment of five documented vessels and four pleasure vessels. We found that the assessor valued the vessels correctly and that all documented vessels have met the requirements for the exemption. The assessor's vessel procedures and appraisals appear to be in good order and we have no recommendations.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or upon the owner's request for conversion from vehicle license fee status to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Manufactured homes should be classified as personal property and enrolled on the secured roll.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, the *Kelley Blue Book Manufactured Housing Used Value Guide* (Blue Book) and the N.A.D.A. *Manufactured Housing Appraisal Guide* (N.A.D.A.)

For the 2002-03 roll, there are 7,472 manufactured homes in Santa Barbara County with an assessed value of \$107,432,687. A little less than one-half of these (3,528) are located in 70 mobilehome parks.

The assessor has assigned the appraisal of manufactured homes located in mobilehome parks to two appraisers in the title transfer section. Manufactured homes not in a mobilehome park are assigned by geographic location. Real property appraisers typically value those manufactured homes located in their assigned areas. The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development (HCD) listings, building permits, dealer's reports of sales, deed recordings, and *Preliminary Change of Ownership Reports*.

In our prior survey, we suggested that the assessor annually review manufactured homes for declines in value on each lien date. Our current survey indicates that the assessor is still not performing annual reviews of manufactured homes for declines in value. Therefore, we are now addressing our prior suggestion as a recommendation.

RECOMMENDATION 21: Annually review manufactured home assessments for declines in value.

The assessor does not annually review the assessments of manufactured homes for declines in value. Once a base year value for manufactured homes is established, it is factored by the annual inflation factor each year.

Section 5813 requires the assessor to assess a manufactured home at the lesser of its base year value (adjusted annually for inflation not to exceed two percent) or its market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. Most price guides suggest that manufactured homes depreciate in value over time. Thus, assessing manufactured homes at their factored base year values without reviewing for declines in value may result in the overassessment of these properties.

We recommend that the assessor annually review the assessments of manufactured homes for declines in value.

APPENDICES

A. County Property Tax Division Survey Group

Santa Barbara County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Mining and Petroleum Engineer

Robert Donay

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Pamela Bowens

Associate Property Auditor-Appraiser

Manuel Garcia

Associate Property Auditor-Appraiser

Raymond Tsang

Associate Property Auditor-Appraiser

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁵ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁶
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁵ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁶ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives

conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

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

15643. When surveys to be made .

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

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

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

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

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

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

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

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

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

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

(b) For purposes of this section:

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

(a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

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

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

Rule 371. Significant assessment problems .

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

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

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

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

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

December 8, 2003

Ms. Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento Ca 94279-0062

Dear Ms. Stuckey:

In accordance with Government Code Section 15645 the Assessor's response to the State Board of Equalization Assessment Practices Survey for 2002 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 thank the Survey team for their positive acknowledgement of our successes in the following fields: staff training, new construction and transfer assessment, document processing, the California Land Conservation Act program, decline in value assessments, leasehold improvements, exemptions and exclusions, cable television, water companies, leased equipment, pipeline right-of-ways, petroleum assessment, non-mandatory audits, computer valuation, vessels and aircraft assessment.

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 \$13 billion dollars since the last survey of 1998. The department has successfully met this challenge and has done so without significant increases in staff or budget.

Sincerely,

/s/ Joseph E. Holland

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

Santa Barbara County
Response to the November 2003 SBE Survey Recommendations
December 8, 2003

Recommendation 1

Timely submit the forms check lists and rearranged forms to the BOE for approval

Response:

We agree and will comply with the recommendation

Recommendation 2

Grant the church exemption only to churches that file an annual affidavit as required by section 255.

Response:

We agree and will comply with a reasonable interpretation of statute.

Recommendation 3

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

Response:

We agree and will continue to strive to receive such information; we have recently expanded our efforts with the cities and county.

Recommendation 4

Grant disaster relief for all qualifying misfortunes or calamities as provided in rule 139

Response:

We agree and will continue to grant relief to all qualifying properties based on interpretation and advice received regarding rule 139.

Recommendation 5

Audit Racehorse Accounts as required by rule 1045

Response:

We agree and will strive to comply pursuant to the R&T code, Property Tax Rules and available resources and data. We have identified two racehorse entities subject to audit and will add to the mandatory audit list

Santa Barbara County Response Continued

Recommendation 6

Accept only completed section 63.1 claims

Response:

We agree and will strive to comply given the reasonable definition of substantial completion.

Recommendation 7

Make supplemental assessment for structural leasehold improvements and possessory interests assessed on the unsecured roll.

Response:

We agree and will strive to comply given practical assessment and data processing considerations.

Recommendation 8

Assess taxable government owned properties according to BOE guidelines

Response:

We agree and as the BOE notes the assessor had already implemented procedural change for the 2003 roll.

Recommendation 9

Recognize lessor expenses when valuing possessory interests by the income approach as required by rule 21.

Response:

We agree and will continue to strive to comply given available resources and data. We will recognize and deduct lessor expenses from gross rents as required.

Recommendation 10

Document possessory interest appraisals

Response:

We agree and will continue to strive for thorough documentation of all appraisals and will include base year value information and term of possession.

Santa Barbara County Response Continued

Recommendation 11

Value property that is owned by mutual water companies at a minimal value when those property values are included in the land they serve.

Response:

We agree and will continue to strive to comply. Many water company properties are of low value, with little assessment activity and parcels, while under water company ownership, may not be relevantly associated with water company activity.

Recommendation 12

Obtain documentation for all mutual water companies

Response:

We agree and will continue to strive to comply.

Recommendation 13

Return incomplete mineral production reports to taxpayer

Response:

We agree and will comply given the reasonable definition of substantial completion, the data required and as resources dictate.

Recommendation 14

Document the appraisal unit used to compare the adjusted base year value with the current market value.

Response:

We agree and will continue to strive to comply and insure that all appraisal units are clearly indicated

Recommendation 15

Document the components used in mining property appraisals.

Response:

We agree and will continue to strive to document all appraisal components

Santa Barbara County Response Continued

Recommendation 16

Bring the mandatory audit program up to current status

Response:

We agree and will strive to comply given workload and available resources and with consideration of racehorse audits and non-mandatory audits.

Recommendation 17

Apply the section 463 penalty to both secured and unsecured business accounts.

Response:

We agree and will strive to comply. The BOE correctly notes that section 463 penalties are applied to all unsecured accounts, which are a vast majority of the total accounts. The current computer systems do not allow for such penalties on the secured roll. A new unsecured system is being developed to address this issue.

Recommendation 18

Use Assessor's Handbook section 581, as intended, when valuing older machinery and equipment

Response:

We utilize handbook section 581 in conjunction with the California Assessor's Association position paper on percent good factors to promote uniform and equitable assessments.

Recommendation 19

Properly classify machinery and equipment reported on business property statements.

Response:

We agree and believe that in the vast majority of assessments all property is correctly classified. We will continue to monitor classification.

Recommendation 20

Properly assess personal property in apartments

Response:

We agree and believe we are in substantial compliance with rules and regulations. We will continue to strive for increased consistency and documentation.

Santa Barbara County Response Continued

Recommendation 21

Annually review manufactured home assessments for declines in value

Response:

We believe that we are in substantial compliance with applicable rules and regulations. Property is assessed at the lesser of its base or market value and the assessor is not required to make an annual reappraisal of all assessable property. Over the last five years over 9,000 (approximately 25% each year) mobile home assessments have been reviewed. We will continue to strive to improve and expand our mobile home assessment program.