

# SANTA CRUZ COUNTY ASSESSMENT PRACTICES SURVEY

**MARCH 1997**

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## FOREWORD

The adoption of Article XIII A (Proposition 13 and later Proposition 8) by the voters in 1978 brought about significant changes in the way local government and public schools are funded. This Constitutional article drastically reduced property tax revenues by rolling back both the assessed value and the tax rate. In addition, it placed restrictions on the growth of assessed values and prevented local agencies from increasing the property tax rate. Although the property tax is a "local" tax, local governments have almost no control over the amount of property taxes to be collected or how the taxes are allocated among the county, cities, special districts, and schools.

The Article XIII A assessment requirements significantly altered the county assessor's property valuation program. Instead of appraising all properties periodically in accordance with a cyclical plan, as was done prior to Article XIII A, most kinds of real property are reappraised only if there has been a change in ownership, new construction, or a decline in value. The fair market value as of the date of change in ownership is the "base year value," and subsequent assessments cannot be increased by more than 2 percent annually. If on any subsequent lien date the adjusted base year value exceeds the current fair market value of the property, the market value must be enrolled as the taxable value for that year. If there is new construction subsequent to the change in ownership, the value of the newly constructed property is determined and becomes an addition to the original base year value. This separate base year value is also subject to the maximum 2 percent annual increase in assessed value. Due to legislative definitions of what constitutes a change in ownership or new construction for property tax purposes, many types of ownership transfers and several types of construction are excluded from reassessment, although the assessor must nevertheless update the property ownership and physical characteristics records.

What does this mean to the assessor's valuation program? Under a cyclical reappraisal system, the assessor plans the reappraisal workload years in advance. Under the Article XIII A system, the assessor can only estimate workloads. In addition to discovering all changes in ownership and new construction, the assessor's staff must also analyze each such event to determine whether it is or is not subject to reassessment, as required by a complex set of constitutional and statutory requirements. Now, property tax appraisers must be both skilled in appraisal techniques and more knowledgeable of property tax law.

The recession of the early 1990's created additional complications for California counties and assessors. As a result of a weak real estate market, a large number of properties declined in value below the Article XIII A maximum, new construction and changes in ownership slowed greatly, and the changes in ownership that have occurred result in decreases or only modest increases in assessed value. Although the slowdown in new construction and changes in ownership decreased that portion of the assessor's workload, the decline in value problem has created an enormous increase in the workload for reappraisals and assessment appeals.

Because of property value declines, the rate of property tax revenue increases that had been experienced in the past lessened. At the same time, state budget problems have resulted in substantially reduced property tax allocations and other budgetary support for most counties. This has made it extremely difficult for most counties to provide adequate funding for assessors' offices as well as for many other important programs.

All of the factors discussed above contribute to making the local property tax a more difficult tax to administer, and seemingly more difficult to fund. Yet, the property tax continues to be one of the most important sources of revenue for local government and public schools. Further, the property tax continues to be the most visible of all state and local taxes; visible to those who pay the property tax and to all levels of government that are dependent upon it. This visibility and the continued importance of the tax require that good assessment practices, efficient administration, and total conformity with the law be achieved by all agencies involved in the administration of the property tax.

Although the primary responsibility for local property tax assessment is properly a function of county government, the State Board of Equalization has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties is to conduct periodic surveys of local assessment practices. The Board's Assessment Standards Division conducts these surveys.

Assessment practices surveys are required by Sections 15640 through 15646 of the Government Code. These statutes require that a survey is to be repeated or supplemented at least once in every five years, which is the schedule for the current round of surveys. The surveys must include, at a minimum, a sampling of assessments of the local assessment roll followed by research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the valuation of taxable property; compliance with state law and regulations; the volume of assessing work and other duties to be done; and the assessor's needs for maps, records, equipment, supplies, and personnel. Due to budget and staffing limitations, our survey of Santa Cruz County focuses on tax revenue-related problems and compliance with statutes and regulations. Administration, personnel, systems, equipment, mapping, exemptions, and fiscal needs were reviewed or reported in this survey only as they related directly to revenue or legal issues.

Within 30 days after receiving a copy of the survey report, the county assessor may file a written response to the Board's findings and recommendations. The survey report, together with the county assessor's response and the Board's comments regarding the response, constitutes the final survey report which is distributed to the County Board of Supervisors, Assessment Appeals Board, the Grand Jury, the Governor, the Attorney General, the Senate, and the Assembly.

Fieldwork for this report was conducted by Assessment Standards Division staff during March 1996. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Robert C. Petersen, the Santa Cruz County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

Richard C. Johnson, Chief  
Assessment Standards Division  
Department of Property Taxes  
California State Board of Equalization  
March 1997

**ASSESSMENT STANDARDS DIVISION SURVEY GROUP**

**Santa Cruz County**

Survey Program Director:

J. Thomas McClaskey

Principal Property Appraiser

Field Survey Team Supervisor:

Marvin Griebrok

Supervising Property Appraiser

Field Survey Team:

Union City Field Office

Office Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Office Survey Team:

Hadley Alger

Associate Property Auditor Appraiser

Michael Allen

Associate Property Appraiser

Andy Anderson

Associate Property Appraiser

Randolf Bertholf

Associate Property Auditor Appraiser

Kenneth Dal Busco

Associate Property Appraiser

John Despotakis

Associate Property Auditor Appraiser

Peter Gaffney

Senior Specialist Property Appraiser

Manuel Garcia

Associate Property Auditor Appraiser

James Lovett

Associate Property Appraiser

Thomas Robinson

Associate Property Appraiser

Michael Shannon

Associate Property Auditor Appraiser

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## I. INTRODUCTION, SUMMARY, RECOMMENDATIONS, AND SUGGESTIONS

### A. INTRODUCTION

Section 15640 of the Government Code provides in part that 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 purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey shall include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.”

It is apparent from this language that the Legislature envisioned the Assessment Standards Division’s (ASD) assessment sampling and office survey to be integral components of a unified process, i.e., the evaluation of how well the county assessor is carrying out the sworn duty to assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Furthermore, this section also provides that:

“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 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.”

The way in which the sampling and survey process is carried out was developed after the Board’s ASD staff met with county assessors and their representatives.

This report is the culmination of a review that began with ASD staff appraisals of randomly selected assessments on the Santa Cruz County Assessor’s 1993-94 tax roll. The survey team analyzed the results of the assessment sampling, then examined current practices and procedures to see whether problems identified in the sampling still existed in the assessor’s operation. Finally, the survey team developed positive courses of action, presented here as recommendations and suggestions, to resolve the problems identified in the assessor’s programs.

## Overview of the Santa Cruz County Assessment Roll

ASD's field appraisal team completed appraisals of 251 properties of all types assessed on the 1993-94 Santa Cruz County assessment roll. This roll contained a total of 95,579 assessments having a total enrolled value of \$13.9 billion. (For a detailed explanation of ASD's sampling results and program, see Appendix A.) Sampling data indicated that the roll was composed of the following assessment types and property types:

<u>Assessment Type<sup>1</sup></u>	<u>No. of Assessments In County</u>	<u>Enrolled Value</u>
Base Year <sup>2</sup>	56,429	\$5,609,365,158
Transfer <sup>3</sup>	19,574	4,506,750,518
Construction <sup>4</sup>	7,800	3,117,982,428
Special Assessment <sup>5</sup>	368	64,572,314
Unsecured <sup>6</sup>	<u>11,408</u>	<u>621,145,082</u>
Total	95,579	\$13,919,815,500

<u>Property Type</u>	<u>No. of Assessments In County</u>	<u>Enrolled Value</u>
Residential	73,131	\$9,981,365,358
Rural	7,136	588,770,539
Commercial-Industrial	10,763	3,243,940,506
All Other	<u>4,549</u>	<u>105,739,097</u>
Total	95,579	\$13,919,815,500

Regardless of the size of the county, the assessment of property for tax purposes is a formidable task. Proper administration of this task is vital both to government agencies in Santa Cruz County and to taxpayers. Because the job is so important and so complex, it is necessary for an independent agency such as the Board of Equalization to make periodic reviews of the assessor's operation. This survey report is the result of such a review of the Santa Cruz County Assessor's Office by the Board's Assessment Standards Division.

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<sup>1</sup> Note: While the expansion process accurately indicates roll total, the allocation among assessment types is not necessarily accurate. It simply describes a general distribution of a known population.

<sup>2</sup> Assessments where the base year was 1988 or earlier.

<sup>3</sup> Assessments where a change in ownership since February 28, 1988, established a new base year value in whole or in part.

<sup>4</sup> Assessments where new construction completed since February 28, 1988 established a new base year value.

<sup>5</sup> Assessments where all or part of the real property is subject to special assessment procedures; in Santa Cruz County, this group includes California Land Conservation Act (CLCA) lands, Timberland Production Zones (TPZ), and Section 11 lands (taxable government-owned lands).

<sup>6</sup> Assessments entered on the unsecured roll include personal property, fixtures, structures on land owned by another, and taxable possessory interests.

This survey was conducted according to the method mandated by Section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

Revenue and Taxation Code Section 75.60<sup>7</sup> requires that the Board certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level of 95 percent or higher as determined by the Board through its assessment sampling program.

Based upon our recent assessment sampling, the Board certified Santa Cruz County as an eligible county. This indicates that its assessment program is substantially in compliance with the law. The recommendations and suggestions contained in this report are based on our analysis of data which indicates that statutory violations, under- or overassessments, or unacceptable appraisal practices may be occurring in specific areas.

## B. SUMMARY

We found the Santa Cruz County Assessor's Office to be well run and very efficient. There is good coordination and communication among the inter-office divisions and between county departments to provide service to taxpayers. In this world of fiscal constraint, the assessor has suffered his share of staff reductions over the last few years. However, the assessor has not only maintained an excellent assessment program and service level to taxpayers, but he has also taken steps to incorporate various innovations to help taxpayers since our prior assessment practices survey report was published in 1992. We commend the assessor, his managers, and his professional and technical staffs for those innovations, which are briefly outlined in the following paragraphs.

Over the four years from 1991 through 1995, the assessor's office experienced a reduction in staff of about 10 positions (from 41.5 to 31) or a loss of about 25 percent. In response, the assessor consolidated and distributed the functions to the remaining staff. Many of the clerical functions, e.g., preparing letters, are now completed by the professional and technical staffs using newly acquired personal computers.

The assessor implemented a direct enrollment program for sales of residential properties that fall within stated guidelines. This resulted in a workload reduction of over 21 percent for transfers.

The assessor is also participating with the auditor and tax collector in establishing a web site on the internet. This site allows taxpayers to access informational brochures and claim forms from the assessor.

The assessor has also implemented an automated fax program to provide property characteristics to subscribers. This program uses a dedicated computer to store residential property characteristics. In conjunction with a fax program, it provides this information by fax to

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<sup>7</sup> All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

subscribers for a fee. In addition to generating sufficient income to cover the cost of running it, this program also reduces staff time required to address these requests from high volume users of this data.

In addition, the assessor is using a computer program to sketch residential structures and to compute their area from information on the building permits. This has reduced the time needed to sketch the drawing by hand and given the field appraisers valuable information prior to making a physical inspection of the subject.

Declining real property values in Santa Cruz county have brought about a huge increase in recent year in the number of assessment appeals and requests for reviews of property values. In an attempt to address declining property values before they reach the appeal or request for review status, the assessor instituted a declining value reduction program. This program incorporates input from the appraisal staff to provide a check on value reductions.

The business property section has developed a program to record the issuance and reception of all business property statements. This program automates the recordkeeping of business property statements and ensures that all previous business property owners receive a property statement.

A direct billing program was instituted in 1992. Over the last four years, this program has reduced the number of business property statements that must be handled by the assessor's staff and has helped the assessor maintain a high standard for assessments on the assessment roll. In addition, it has reduced the amount of paperwork for many small businesses.

In our 1992 survey report, we made 13 recommendations for improving the assessor's real and business property assessment programs. We found during fieldwork for this report that several of these have been implemented, excepting our recommendations for the business property program. The main difficulty with this program has been staffing. The assessor lost one auditor-appraiser position permanently and a second position took an extended period of time to fill, leaving only two auditor-appraisers to staff the program.

Specifically, the assessor's office has addressed the following areas of concern noted in our 1992 survey report:

- Selecting appropriate terms of possession for possessory interest income capitalization.
- Assessing all taxable government-owned property according to Section 11 of Article XIII of the Constitution.
- Revising the valuation method for mineral right assessments.
- Assessing all taxable government-owned water systems.

We commend the assessor for addressing these recommendations from our previous survey report and will discuss in detail these achievements in the body of this report.

As is true in most assessors' offices, reappraising real property that has changed ownership or is newly constructed constitutes the bulk of the workload in the office of the Santa

Cruz County Assessor. While the appraisal staff is generally very consistent in how they perform these tasks, we noted a minor procedural exception in the processing of sales and transfers. We recommend that the assessor follow the statutory time limit when applying penalties for failing to file a change in ownership statement.

Certain property types, although not as significant a workload as changes in ownership or new construction, need the same attention that has been devoted to these two categories. These include possessory interests and water companies.

The assessor continues to use an arbitrary yield rate in the income approach in valuing possessory interests, which was a subject of a recommendation in our 1992 survey report. The staff should research the market to develop a reasonable yield rate to apply to possessory interest income streams. The assessor should investigate all private uses of county fairground facilities for possible possessory interest assessment.

The assessor's office should maintain current and relevant information on all water companies to correctly assess these properties. In addition, relevant documentation should be part of the appraisal file for each mineral producing property. (We found only certain files had been adequately documented.)

Our main concern with the business property program is the failure to keep up with the mandatory audits each year. We recommend that the assessor reallocate staffing to ensure completion of mandatory audits. In addition, we recommend that the assessor develop a written procedures manual for the business property section.

We grouped a number of the remaining assessment programs into a separate section of this report and made various recommendations and suggestions for improvement. Overall, we found that the assessor has an effective and efficient program.

## C. RECOMMENDATIONS AND SUGGESTIONS

This report contains both suggestions and recommendations for improvements to the operation of the Santa Cruz County Assessor's Office. Our recommendations are reserved for situations where one or more of the following conditions exist:

- Property tax statutes or taxpayers' rights are being violated;
- Existing practices are reducing local tax revenues below the level required by law; or
- Existing appraisal practices do not conform to generally accepted appraisal theory.

### **RECOMMENDATIONS**

Following is a summary of our formal recommendations, arrayed in the order in which they are discussed in this report, with parenthetical references to their page locations.

- RECOMMENDATION 1: Apply the Section 482 penalty (failure to file a change in ownership statement) in a timely manner. (Page 14)
- RECOMMENDATION 2: Select appropriate discount rates for possessory interest income capitalization. (Page 18)
- RECOMMENDATION 3: Assess the possessory interests of major users of fairground facilities. (Page 19)
- RECOMMENDATION 4: Require every water company to file an annual business property statement and/or the California Public Utilities Commission (CPUC) report. (Page 25)
- RECOMMENDATION 5: Develop a written policy and procedures manual for the operation of the business property section. (Page 28)
- RECOMMENDATION 6: Reallocate staff duties so that the auditor-appraisers can complete more mandatory audits as required by Section 469. (Page 29)
- RECOMMENDATION 7: Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed before the statute expires. (Page 30)
- RECOMMENDATION 8: Follow statutory requirements when determining audit results and enrolling underassessments or overassessments. (Page 30)
- RECOMMENDATION 9: Apply the correct inflation factor to values of leasehold improvements assessed by the business property section. (Page 33)

- RECOMMENDATION 10: Upgrade vessel appraisal procedures by: (1) improving the mass appraisal technique used to determine the market value of pleasure boats; (2) applying late filing penalties only when using Board-prescribed forms; and (3) requiring certain vessel owners to file annual vessel property statements. (Page 34)
- RECOMMENDATION 11: Assess computers using the Board's recommended factors. (Page 36)
- RECOMMENDATION 12: Correctly identify penalty and escape assessments on the tax roll. (Page 39)
- RECOMMENDATION 13: Enter unsecured escape assessments on the proper tax roll. (Page 40)
- RECOMMENDATION 14: Ensure that business property escape assessments are enrolled under the appropriate code sections and that interest is included where required. (Page 41)
- RECOMMENDATION 15: Provide taxpayers with notices of proposed escape assessments as required by Section 531.8. (Page 41)
- RECOMMENDATION 16: Request that the board of supervisors revise the county's low-valued property exemption resolutions to conform to Section 155.20. (Page 44)
- RECOMMENDATION 17: Exempt personal property owned by homeowners' associations in accordance with the provision of Property Tax Rule 134. (Page 45)
- RECOMMENDATION 18: Request that the board of supervisors adopt a county resolution allowing the county assessor to cancel small supplemental assessments. (Page 46)

## SUGGESTIONS

The following is a summary of our suggestions, arrayed in the order in which they are discussed in this report, with parenthetical references to their page locations.

- SUGGESTION 1: Assign the clerical aspects of the business property section's work to an assessor's aide. (Page 10)
- SUGGESTION 2: Allocate values to land and improvements on direct enrollment transfers on the basis of market value. (Page 15)
- SUGGESTION 3: Conduct a market study of airplane hangar rents. (Page 19)
- SUGGESTION 4: Include copies of leases and other pertinent written information in all possessory interest files. (Page 20)
- SUGGESTION 5: Send questionnaires requesting information about compatible uses on TPZ properties. (Page 22)
- SUGGESTION 6: Streamline the processing of business property statements by: (1) using the Board-prescribed property statement for apartments; (2) purging old data from business property files; and (3) revising the assessor's form ASR 223A. (Page 31)
- SUGGESTION 7: Enhance the direct billing program by sending business property statements to direct billing accounts every fourth year. (Page 32)
- SUGGESTION 8: Revise the form for requesting reassessment of property damaged by calamity or misfortune. (Page 43)
- SUGGESTION 9: Expand methods of discovering disaster relief. (Page 43)

## II. ADMINISTRATION

### A. GENERAL

The assessor's office is well organized and efficient. The office is divided into three logical divisions: valuation, standards, and administration (see Appendix B for an organization chart). There is good coordination and cooperation among all divisions.

The valuation division handles the assessment of real and business property. It is directed by a division director. Under the division director, a chief auditor-appraiser directs the activities of the business property program. The real property program is divided into geographical areas, and the three senior appraisers responsible for those areas report directly to the division director. In addition, boats and aircraft are handled by an appraiser aide under the direction of the division director.

The standards division includes the change in ownership section and the internal audit section. This division is directed by a chief of standards. This division initiates the change in ownership workload within the assessor's office and tracks the quality and quantity of production within the office.

The last division is the administration division. This division is directed by an administrative analyst. She directs the general administrative work, exemptions, mapping, and miscellaneous administrative functions of the office.

The assessor's office has adopted a management style called "Total Quality Management" (TQM). Representatives from the assessor's office, auditor's office, and tax collector's office meet weekly to discuss taxpayer problems, inter-office communication, and work flow among the three offices. A bi-monthly newsletter is published containing pertinent information that is discussed at the meetings. This has improved routing of telephone calls and handling questions concerning special assessments and tax bills.

The three offices have established a web site on the internet entitled "Tax Cycle Information Center" (address <http://www.co.santa-cruz.ca.us>). A taxpayer can access information such as informational brochures and claim forms for filing the builder's exclusion or Proposition 58 exclusion.

In addition, the assessor has established an automated facsimile program called "CruzFax." This program allows individuals or organizations to obtain property characteristics by fax for a fee.

At the time of the fieldwork for this survey, the assessor was in the process of obtaining funding under the provisions of Chapter 914 of the Statutes of 1995 (AB 818). He is requesting funding in the amount of about \$565,000. The funds will be used to:

- clear up the backlog of mandatory audits,
- establish and maintain a nonmandatory audit program,
- work with the county auditor to reduce the number of tax-rate code areas by one-third,
- clean up inaccurate maps that were previously scanned, and
- purchase the necessary hardware and software to obtain deeds and other documents that will be imaged to the recorder's system.

We commend the assessor for the excellent working relationship with other county offices, the innovations in providing information to the public, and the attempt to obtain the necessary funding to improve the operation of his office. We do have a suggestion to improve the efficiency of staff utilization in the business property section.

## B. PERSONNEL

### 1. Staffing

SUGGESTION 1: Assign the clerical aspects of the business property section's work to an assessor's aide.

The three auditor-appraisers in Santa Cruz County do almost all of the processing of business property statements, i.e., receiving, screening for completeness, and the mathematical computation of taxpayers' reported costs to arrive at full cash value. In addition, they perform other clerical tasks such as pulling and refiling property statements.

Most of the above tasks can be performed by an assessor's aide with minimal training. The practice of using auditor-appraisers to perform clerical functions is an inefficient use of personnel. The benefits from assigning these tasks to assessor's aides are:

- The auditor-appraiser's time could be used to process complicated and complex property statements and other valuation problems.
- The auditor-appraiser's time could be used to perform additional audits, potentially producing more net tax revenue.
- These clerical tasks could be completed at less cost because clerical salaries in Santa Cruz County are lower than the auditor-appraisers' salaries.

We suggest that the assessor identify those clerical aspects of processing the business property statements and assign them to an assessor's aide, thus freeing the auditor-appraisers to perform audits or other professional level work.

## 2. Training

Section 670(a) provides that “no person shall perform the duties or exercise the authority of an appraiser for property tax purposes unless he is the holder of a valid appraiser’s or advanced appraiser’s certificate issued by the State Board of Equalization.” In regards to maintaining a valid certificate, Section 671(a) provides in part, “in order to retain a valid appraiser’s certificate every holder shall complete at least 24 hours of training conducted or approved by the State Board of Equalization in each one-year period.” Section 671(b) provides in part, “In order to retain a valid advanced appraiser’s certificate, every holder shall complete at least 12 hours of training in each one-year period.”

The Santa Cruz County Assessor’s Office has a total of 17 Board-certified appraisers and auditor-appraisers. Of these 17, only two are deficient in continuing education training required by the Board to maintain a valid certificate. One certified auditor-appraiser has a training deficit of two hours, while one real property appraiser with an advanced certificate has a 12-hour training deficiency.

The deficiencies in training are minor. The real property appraiser who is deficient in training credits could make up the time by attending one or more appraisal seminar. The assessor’s office is generally doing a good job in keeping the appraisal staff’s training current.

### III. REAL PROPERTY PROGRAM

#### A. INTRODUCTION

Under the current property tax system, the county assessor's programs for assessing real property include the following elements: (1) the revaluation of those properties that have experienced changes in ownership; (2) the valuation of new construction; (3) the annual revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act contracts and taxable government owned land, and (4) the lien date valuation of property that has experienced a decline in value ("Proposition 8" appraisals).

In terms of the assessor's gross budget and total roll size, Santa Cruz County is near the median among California counties. The Santa Cruz County Assessor's budget growth has not kept up with the total roll growth. Although the assessor has been allocated additional staff positions recently, the total staff over the past three years has been reduced by five positions. For 1993-94, the budget was \$1,925,559 with 37 positions; for 1994-95, the budget was \$1,843,983 with 31.80 positions (one position was part-time); and for 1995-96, the budget was \$1,748,280 with 32 positions. The budget has decreased 9.2 percent from 1993-94 to 1995-96.<sup>8</sup>

In our last survey report, we commented on a very worthwhile project that the assessor's office had initiated. This project involved loading property characteristics for single-family residential structures into a computer database. However, since this was a school-funded work program, when the funds terminated, so did the program. At present, characteristics for commercial and industrial properties are being inputted into the database on an "as-worked" basis. Whenever an appraiser has occasion to handle such a property (e.g., a sale, new construction, or appeal), he or she completes a data transmittal sheet that is forwarded to an assessor's aide who then inputs the information into the database. In this manner, characteristics for most remaining properties on the local roll will eventually be loaded into the database.

The advantages of having this database are several. Comparable sales listings can be developed for use in reviews of declining values; tenants in offices or malls can be identified and located; trends in areas of growth and types of construction can be studied; and computerized direct enrollment of sold tract homes is possible.

We commend the assessor and his staff for their progressive planning and perseverance in achieving the goal of creating a database for residential property characteristics. We look forward to the completion of a database that encompasses all properties in Santa Cruz County.

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<sup>8</sup> A Report on Budgets Workload, and Assessment Appeals activities in California Assessors' Office 1994-95 (May 1996)

## B. CHANGE OF OWNERSHIP

### 1. Sampling Results

Our sampling of the 1993-94 assessment roll in Santa Cruz County included 81 properties that had changed ownership. Board appraisers and the assessor's staff agreed on the value of 71 of these and were in disagreement on 10. Reasons for the disagreements were as follows:

- Declines in value (Proposition 8) that the assessor's staff had not recognized (5),
- Incorrectly enrolling the market value in lieu of the factored base year value (1),
- Improper application of the inflation factor to base year values (2),
- Missed parent/child transfer exclusion (1), and
- Difference of opinion in value (1).

Only the first reason appeared to be a cause for concern. It seems to indicate that the assessor either does not have a decline in value program or has an inadequate program. However, in our review we found that the assessor has an excellent decline in value program (see the Decline in Value section) and that there were no inherent or continuing problems in this area.

### 2. Transfer Document Processing

The recorder's office daily provides the assessor's office with copies of the recorded deeds and Preliminary Change of Ownership Reports (PCOR's). An assessment clerk ensures that the assessor's parcel number (APN) and names on the deed match those on the PCOR. The two documents are then merged and processed as follows:

- If there is a split or combination, it is routed to a split- combination clerk.
- If there is a partial interest transfer, a clerk either adds or prepares a new partial interest transfer "pie chart."
- If it is a potential "Proposition 58" exclusion (parent/child transfer) or a "Proposition 60" exclusion (transferring base year value), it is routed to a clerk who sends out the appropriate claim form.
- If the document is a lease, the clerk notes the term and routes the document to another clerk or to the chief of standards for review.
- If the PCOR value and the value indicated by the documentary transfer stamp match, the deed is routed for direct enrollment.

After the initial screening, the essential data are keyed into the system, creating a transmittal form. The three documents (deed, PCOR, and transmittal form) are then put into the parcel's appraisal folder. These folders are then flagged with different colors to signify which action to take, i.e., green for reappraise, red for ongoing construction, black for outgoing Propositions 58 or 60 claim forms, blue for lot split and combination, or yellow for calamity adjustments.

The number of recorded documents conveying title dropped 25 percent from 1993 to 1995. In 1995, there were about 10,500 recorded documents, resulting in about 4,000 reappraisable transfers. About 9,000, or 85 percent of the recorded documents, were accompanied by a PCOR.

### 3. Change of Ownership Statements

RECOMMENDATION 1: Apply the Section 482 penalty (failure to file a change in ownership statement) in a timely manner.

When a PCOR is not filed at the time of deed recording, the assessor's policy is to mail a COS to the transferee. If the COS is not returned within 45 days, the clerk mails a second notice marked "Final Notice." If the second statement is not returned to the assessor after 60 days, the assessor's office sends a notice of penalty. Therefore, the property owner has a minimum of 105 days (45 days plus 60 days) from the first notice to file a COS before the Section 482 penalty is added to the assessment roll.

Section 482 provides that if a person fails to file a COS within 45 days after a written request by the assessor, the assessor shall add a penalty to the assessment made on the roll. After the penalty is added, Section 483 allows the taxpayer to file the COS with the assessor and request abatement of the penalty through written application to the county board of supervisors. The application must be made within 60 days of being notified by mail of the penalty.

The assessor does not have the authority to extend the filing period. Section 482 provides for a 45-day filing period. Failure to file timely requires that a penalty be added to the roll. We therefore recommend that the assessor apply the nonfiling penalty promptly upon expiration of the 45-day period. By not applying the penalty in a timely manner, the assessor is in effect extending the filing period without legal authorization.

### 4. Direct Enrollment

The Santa Cruz County Assessor's Office has implemented a program that reduces the amount of appraisal staff time spent revaluing sold residential properties. According to a chart supplied by the assessor's office, from March 1, 1995 through February 13, 1996 of the 4,044 transfers, 862 were directly enrolled, providing a workload reduction of over 21 percent. The following conditions must be met before a sale can be considered for direct enrollment:

- The recorded deed must be accompanied by a PCOR.
- The deed must show a documentary transfer tax (i.e., to be a sale).
- The transfer must be a one-parcel sale.
- The transfer must convey a fee simple interest in the property.
- The property must have a qualifying use code.

SUGGESTION 2: Allocate values to land and improvements on direct enrollment transfers on the basis of market value.

Currently, the assessor allocates direct enrollment value at 50 percent to land and 50 percent to improvements. This allocation policy is not based on any market studies conducted by the assessor's staff. There is no support for this arbitrary policy other than convenience. Santa Cruz County has few homogeneous neighborhoods or well defined subdivisions. Moreover, because it is a coastal county, ocean views create great differences in site values. Certain sites, such as ocean view lots, may require a greater value allocation than 50 percent.

We suggest the assessor's staff conduct market studies of designated areas to more accurately determine the market value of the land. This will help avoid problems that arise when the allocation between land and improvements becomes an issue; for example, if the structure is destroyed or removed.

5. Legal Entity Ownership Program (LEOP)

Since 1981, the Board's Assessment Standards Division (ASD) has informed county assessors of changes in control or ownership of legal entities that own real property in California. A change in control of a legal entity constitutes a change in ownership of any real property owned by the acquired entity. ASD learns of these changes in control of legal entities from responses to questions appearing on corporate and partnership tax returns filed with the Franchise Tax Board (FTB) by legal entities.

ASD's LEOP unit gathers this preliminary information from FTB and sends the acquiring entity a questionnaire requesting the date of the change in control, the manner of change in control, and a listing by counties of all real property in California owned by the acquired legal entity. Responses are accumulated, sorted by county, and forwarded to the appropriate assessors' offices. This provides county appraisal staffs with information on unrecorded transfers of real property that may otherwise be overlooked.

For the roll year 1993-94, ASD's LEOP unit notified the Santa Cruz County Assessor's Office of 33 entities, involving 334 parcels, that experienced changes in control. We randomly sampled various parcels owned by 11 different entities and found parcels owned by 10 of the 11 had been reappraised, and the assessor's transfer unit processed the changes in ownership for the parcels owned by the remaining legal entity.

Our review of the procedures used by the assessor's staff to process unrecorded changes in control showed that the Santa Cruz County Assessor's Office is doing excellent work.

## C. NEW CONSTRUCTION

### 1. Sampling Results

ASD's sampling of the 1993-94 Santa Cruz County assessment roll included 68 samples that were identified as new construction. There were only six cases where ASD and the assessor had substantial value differences attributable to new construction. In all six cases, the ASD appraised values were higher than the county enrolled values.

Our review of the six samples indicated that the value differences between the county enrolled values and the ASD appraised values were caused by differences in opinions of value and did not involve escaped new construction.

There were only four samples out of a total of 216 samples in Santa Cruz County showing escaped new construction. The new construction escaping assessment consisted of a new motor home garage, decking, a remodeled kitchen, and a gazebo. The assessor's staff acted on the findings of the ASD appraisals and enrolled all the escaping property except for a small wooden deck. The escape of this new construction was the result of the failure by the taxpayers to obtain building permits.

### 2. Permit Process

In Santa Cruz County there are five permit-issuing agencies: the County of Santa Cruz and the Cities of Santa Cruz, Watsonville, Scotts Valley, and Capitola. These agencies issue an annual total of about 5,200 permits.

The permits issued and received by Santa Cruz County are processed by the chief appraiser, while those issued by other agencies are processed by the assessment clerks. The processing consists of first culling permits for nonappraisable new construction, e.g., reroofing, water heater replacement, termite repair. Then an assessor's aide verifies the assessor's parcel number on the remaining permits, keys the relevant data, i.e., permit number, assessor's building permit, date issued, into the computer system, and combines the computer-generated transmittal form and permit with the appraisal folder.

The County of Santa Cruz recently implemented an automated on-line permit-issuing process which is fully accessible to the assessor's office. The assessor's staff can access computer screens used by the county planning department. These screens show all permits that are generated by the county planning department. The screens also reflect the stage of construction and the inspection dates.

### 3. Non-permitted New Construction

If new construction is completed without a permit and the construction is not reported to assessor, the value of this new construction may never be assessed. In 1994, the Santa Cruz County Board of Supervisors established the position of Administrative Hearing Officer to hear Building Code compliance cases. Code compliance violations are discovered via complaints received from telephone calls, mail, public contact, and interdepartmental referrals.

In addition, the hearing officer is authorized to establish compliance requirements and impose both civil penalties and cost recovery fines. If these fines are not paid by the due date, a tax lien or personal judgment is levied. The planning department then issues a Code Compliance Assessment Lien.

Upon receipt of a Notice of Code Compliance Assessment Lien, the recorder records and returns the original Notice of Code Compliance Assessment Lien to the planning department and forwards certified copies to the assessor's office. The assessor's office is also notified by the Code Enforcement Officer when a "red tag" has been issued. A "red tag" places a stop-work order and a lien on the property until the owner complies with the Santa Cruz County Building Code ordinances.

These two methods of discovering nonpermitted new construction have greatly assisted the assessor in the discovery of new construction. Upon notification, the assessor's office will assess the value added to the property by the nonpermitted new construction.

#### 4. Computer-Assisted Drawing Program

AutoCad (a computer program used for drafting and reproduction of drawings) is used in the Santa Cruz County Assessor's Office to sketch residential structures and to compute the square footage from the building permits acquired from the five different building departments located in Santa Cruz County. Each building permit application must show plans for new structures as well as for additions. Using AutoCad, an assessor's aide reproduces the exact drawing and computations of the structure's area. The drawing is then placed in the appraisal file and the file is tagged as new construction.

When the appraiser works the file, he or she will have a complete drawing and computation of the new construction available when the property is inspected in the field. At this time, it is the individual appraiser's responsibility to verify the accuracy of the drawing, as well as amend the drawing for any additional structures that are not included on the plans. If there is a discrepancy of any kind, a revision of the original drawing will be made, and a corrected copy will be produced by the assessor's aide.

The assessor has a very good program to track permitted and notified non-permitted new construction. The assessor has contact with all permit-issuing agencies in the county. In addition, information from discovery of non-permitted new construction by the county is provided to the assessor. All this information is keyed into the assessor's computer database in order to track the new construction workload.

## D. SPECIFIC PROPERTY TYPES

### 1. Possessory Interests

There are numerous private uses in Santa Cruz County of land and improvements owned by the State of California, the County of Santa Cruz, the Port of Santa Cruz, the Cities of Capitola, Santa Cruz, Scotts Valley, and Watsonville, the University of California, various school districts, and other governmental agencies. Many of these uses are defined as taxable possessory interests. On the 1995-1996 tax roll, possessory interest assessments enrolled included approximately 950 boat slips, 150 aircraft hangars, 140 airplane tie downs, and 300 other interests, including such diverse uses as ranger residences, waterfront restaurants, park concessions, and grazing interests.

At the time of our last assessment practices survey report, we recommended that in using the income capitalization method to value possessory interests, proper discount rates and terms of possession should be selected. In addition, we suggested that the staff include copies of leases and other pertinent information in the appraisal files.

In our recent review, we found that the assessor's staff have made changes in the selection of the appropriate terms of possession (e.g., ten years for boat slips, five years for hangars); however, the assessor's office is still using an arbitrary discount rate.

The chief of valuation handles the assessment of the boat slips, airplane tie downs, and airplane hangars. An assessor's aide annually recalculates their values, subject to his approval. No supplemental assessments are levied. There is a waiting list for airplane hangars and the rents have not increased for five years.

The approximately 300 diverse possessory interest assessments are handled by one of the three supervising appraisers. This appraiser sends out computer-generated printouts to each public agency requesting updated tenant information. The agencies correct the printouts and return them to the assessor's office. The appraiser then updates the possessory interest database on the computer system which automatically calculates the possessory interest assessment.

Overall, the assessor's program for assessing taxable possessory interests is carefully thought out and well-maintained. In the interest of improving the assessor's program, however, we have three recommendations and two suggestions to offer for possessory interest assessments in Santa Cruz County.

#### a. Discount Rate

RECOMMENDATION 2: Select appropriate discount rates for possessory interest income capitalization.

In our prior survey report (1992), we recommended that the assessor select appropriate discount rates for possessory interest capitalization and we suggested how to do this.

The assessor has not followed this recommendation, but still uses the arbitrary discount rate of 10 percent to determine the possessory interest value. While this rate may be an appropriate discount rate for certain possessory interests, the appropriate discount rate for possessory interest valuations is a market-derived yield rate that is consistent with the type of property being appraised (rural, commercial, etc.) plus an adjustment for property taxes.

It is improper to apply a standardized rate to residential, commercial, rural, or other property types. This method fails to recognize market influences and the different risks involved in diverse property uses.

If market data from sales are not available, an alternative method of deriving a rate is to use industry financial data. Such data are generally quite accurate, are readily available from numerous financial journals, and are usually the best surrogate for a sales-derived rate.

We recommend the assessor research the local market and, if possible, derive the appropriate yield rate to be used for the various possessory interests.

b. Fairground

RECOMMENDATION 3: Assess the possessory interests of major users of fairground facilities.

The Santa Cruz County Fairground is located in Watsonville and is operated by the 14th Agricultural Association, State Division of Fairs and Expositions. In addition to the six-day Santa Cruz County Fair that is staged in September, there are numerous interim events (e.g., shows and exhibits) held at the fairground throughout the year.

According to our preliminary research, only a few private uses of the fairground have been assessed. However, there are several other private uses of the fairground that warrant assessment as taxable possessory interests.

Some of these taxable interests are recurring annual uses of the fairground during the period of the annual county fair, while others are recurring interim uses. One of the larger recurring annual uses of the fairground has never been assessed. It was subject to a 3-year lease and generated about \$42,000 in rent for 1995.

We recommend that the appraisal staff investigate all private uses at the fairground. If any qualify as possessory interests, they should be valued and enrolled as soon as possible to prevent taxable property from escaping assessment.

c. Airplane Hangars

SUGGESTION 3: Conduct a market study of airplane hangar rents.

There are approximately 150 airplane hangars at the Watsonville Airport. According to our research, there have been no vacancies for the last five years and there is a

waiting list of people to use the hangars. The hangar rents have stayed the same for the last five years.

The assessor receives a computer printout from the airport manager showing the hangar number, monthly payment, user, date the lease started, and other relevant information. The assessor uses the listed monthly payment in valuing the possessory interests in the aircraft hangars.

In light of the waiting list and the fact that no change to the rent has occurred for the last five years, it is possible that the rent could be low. We suggest that the assessor make a market study of hangar rents at comparable airports in order to determine the market rents for the hangars. This could result in an increase or decrease in the rent of the hangars and could affect the assessment of the hangars.

d. Documentation

SUGGESTION 4: Include copies of leases and other pertinent written information in all possessory interest files.

In our prior survey report (1992), we suggested that the assessor include copies of leases and other pertinent information in all possessory interest files (Suggestion 2). The assessor still has not followed this suggestion.

Although the assessor maintains annual written contact with public agencies throughout Santa Cruz County, the usual extent of information received is an updated tenant listing. In some instances, the assessor needs to know about the exact terms of the agreement, e.g., ownership of the tenant improvements and expenses paid by the tenant. This information is crucial to determining the total consideration paid by the lessee for use in the income approach to value.

Other pertinent information to be obtained from written agreements include whether there were written options for renewing or extending the lease; whether the lease called for escalating payments in the future; and whether the leasehold interest was assignable to new lessees.

Therefore, we repeat our previous suggestion. The assessor should obtain copies of all written documents pertaining to each assessable possessory interest.

2. Restricted Valuation Properties

a. Taxable Government-Owned Properties (Section 11)

The Constitution of the State of California exempts property owned by a local government from taxation except lands and the improvements thereon that are located outside of its boundaries and were subject to taxation at the time of acquisition. The authority to tax certain government-owned property is provided by Section 11 of Article XIII of the California Constitution, hence such property is frequently referred to as Section 11 property.

Taxable government-owned land in all but Mono and Inyo Counties should be enrolled each lien date at the lowest of the following three values:

- The land's 1967 assessed value times the appropriate Board-announced factor.
- The land's current fair market value.
- The land's factored base year value.

Improvements that were taxable when acquired by the local government are assessable under the valuation standards of Article XIII A, i. e., at the lesser of their current market value or their factored base year value. If the improvements were replaced after acquisition, they have an upper limit of value that is the highest value ever used for the improvements that were replaced. Improvements that were not taxable when acquired remain non-taxable. New construction after acquisition is exempt.

In our survey we randomly reviewed 24 properties out of 123 total Section 11 properties in the county. For each property the county had determined the lowest of the three values indicated above. The third value consideration, the Proposition 13 value, is correctly based on a recent court decision (*City and County of San Francisco v. County of San Mateo et al.*(1995), 10 Cal.4th 554). We did not find any discrepancies in the 24 properties that were reviewed.

The assessor's staff has complied with the four steps recommended in our 1992 Assessment Practices Survey Report for reviewing Section 11 properties. Those steps are:

- Review each parcel having use code 937 (the assessor's code for taxable government-owned land) and establish its 1967 assessed value for taxable government -owned land.
- Determine whether taxable improvements were present at the time of acquisition. If present, determine and enroll the factored base year value of the improvements.
- Contact each public agency having taxable land in Santa Cruz County and request information concerning the private use of any such taxable improvements or land. If any exist, appraise and enroll possessory interests for these uses in Santa Cruz County.
- Annually multiply the 1967 assessed value of land times the Phillips factor annually announced by the Board. Enroll the lower of the land's current market value (Section 110) or the value computed by multiplying the 1967 assessed value by the Board-announced factor.

After implementing the recommendations from the 1992 Assessment Practice Survey Report, the Santa Cruz County Assessor's Office is now in compliance with the State Constitution and should be commended for the fine work they did to make the necessary corrections to their Section 11 properties.

b. Timberland Production Zone Properties (TPZ)

The Z'berg-Warren-Keene-Collier Forest Taxation Reform Act (Chapter 176, Statutes of 1976) imposed a yield tax on every owner of felled or downed timber in this state. In addition, land zoned Timberland Production Zone (TPZ) became subject to assessment in accordance with special TPZ site classifications that exclude the value of the standing timber.

Currently in Santa Cruz County there are 476 parcels zoned TPZ. One hundred sixty-five of these have either residences or miscellaneous improvements, while 311 are vacant. ASD's sampling of the 1993-94 Santa Cruz County assessment roll included three samples classified as TPZ. ASD's values and the county's values were very similar for two of the samples; for the third sample the value differences were attributable to issues unrelated to TPZ land values.

In the previous survey report of Santa Cruz County (1992), we recommended the county not apply TPZ assessment procedures to the taxable lands owned by a local government. We checked the list of current TPZ parcels and confirmed that the assessor had corrected the problem.

The assessor's office classifies all TPZ parcels as Redwood Site Class III. The Board's timber property appraiser determined the classification on two of the three sample parcels to be high Site IV or low Site III. While not perfect, the all encompassing Redwood Site Class III is perhaps the fairest overall site classification the county can use until such time as more staff or resources can be directed to this area.

**SUGGESTION 5:**     Send questionnaires requesting information about compatible uses on TPZ properties.

Section 435(a) reads in part that "the assessor shall use as the value of each parcel of timberland the appropriate site value pursuant to Section 434.5 plus the value, if any, attributable to existing, compatible, nonexclusive uses of the land."

Once land is zoned TPZ and enrolled as such by the assessor's staff, there is no contact between the assessor's office and owners of TPZ parcels. This creates a discovery problem if there is income to the property from an existing compatible use (e.g., hunting, grazing).

The assessor could easily remedy this situation by periodically sending out a questionnaire requesting information on compatible use to the participating TPZ land owners. We suggest this be done to ensure that the value of the compatible use is reflected in the assessed value of the TPZ land.

c.     Open-Space Properties

There are various kinds of properties that qualify for restricted valuation under Section 423. In Santa Cruz County, the prevailing types of properties subject to this restricted valuation are open-space easements (easements) and agricultural preserves subject to the

California Land Conservation Act (CLCA). Open-space easements and agricultural preserves are different kinds of enforceable restrictions on land use. These mechanisms proceed from different statutory provisions, but both types of restrictions qualify for the special assessment formula prescribed by Section 423. Together, they are known as open-space properties.

At the time of our last survey report (1992), a computer program performed the tedious calculations necessary to convert the income streams from these properties into a value. At that time, the total roll value of open-space properties amounted to about one-quarter of 1 percent and was dropping as a percentage of the local roll. The trend toward less acreage and fewer parcels has continued, as the following data shows:

<u>Year</u>	<u>Total Value</u>	<u>Acreage</u>	<u>No. Parcels</u>
1994-95	\$34,070,923	16,133	372
1995-96	\$37,027,216	15,297	363

The program is administered by one appraiser who annually sends out questionnaires to landowners enrolled in the CLCA program and semi-annually to landowners of easements. From information provided in the questionnaires, the appraiser reviews current rents, determines a fair economic rent, and inputs them into a computer program that capitalizes the rent into a land value. For living improvements (e.g., trees and vines), the computer program utilizes a present worth factor based on the expected life of the orchard or vineyard as selected by the appraiser.

We reviewed the calculation of homesite values, the nonrenewal calculations, and the supplemental assessments of unrestricted new construction, and found no problems. In our sampling of the Santa Cruz County 1993-94 assessment roll, only three CLCA assessments were included and no CLCA problems were found. To supplement this sampling, we reviewed 19 CLCA properties at random and found no major problems. We found the program to be efficient and well run. However, we have a few comments that will improve a very good program.

Open-space easements are not included in the annual rent survey sent to the owners of CLCA properties. An open-space easement questionnaire is currently being sent every other year, but it contains no questions regarding compatible uses or compatible use income.

The assessor needs current data on land subject to open-space easements as well as on CLCA properties in order to comply with Section 423(a)(1) which reads in part that: "Any cash rent or its equivalent considered in determining the fair rent of the land shall be the amount for which comparable lands have been rented." This data will help the assessor determine market rents and consider compatible uses as required. Therefore, we encourage the assessor to include properties subject to open-space easements in the annual questionnaire mailing.

Section 423 provides that income from compatible uses must be included in the income stream of the restricted property to be capitalized into a value. Currently, the assessor has no method of discovering compatible use or income. By not considering this income in the assessment of a restricted property, undervaluation may result.

This problem could easily be remedied by including questions about compatible use and compatible use income on the annual questionnaire. This would help the assessor's staff make a proper valuation of such restricted properties.

Therefore, the assessor's staff should revise the current questionnaire to include questions about compatible uses and compatible use income of CLCA and open-space lands.

The current questionnaire does not adequately detail expenses for CLCA properties, and subsequently brings into question whether the rents provided by the property owners in the questionnaire are gross, net, or somewhere in between. Capitalizing rents that have not been adjusted for landlord expenses can result in overassessment of restricted lands.

It is important to determine the appropriate expenses in cash or share rent arrangements to ensure that the rents being capitalized are truly net of landlord expenses. Obtaining a better breakdown of the expenses would help the assessor's staff determine the appropriate rent to capitalize into a value.

The existing rent and production questionnaire should be revised to include a more detailed breakdown of expenses, e.g., questions on: (1) wells, (2) other water sources and their cost, (3) pipelines, (4) management and insurance, and (5) reclamation district charges.

### 3. Water Companies

Water company properties assessed on local tax rolls may be either municipal or district water systems on taxable government-owned land (subject to Article XIII, Section 11 of the California Constitution), private water companies regulated by the California Public Utilities Commission (CPUC), private water companies not regulated by the CPUC, or mutual water associations. Each type presents different appraisal problems.

In our last survey report (1992) we recommended that the assessor assess all taxable government-owned water systems in accordance with Article XIII, Section 11 of the California Constitution. In addition, we suggested that the assessor's staff list all parcels owned by regulated water companies and document the allocation of assessed value to each parcel.

Our review of the assessor's records indicates that all water company properties are being assessed, in addition to taxable government-owned water systems. However, it is also apparent that improvements can still be made to the program.

**RECOMMENDATION 4:** Require every water company to file an annual business property statement and/or the California Public Utilities Commission (CPUC) report.

From listings of water companies provided by the California Health Services Department, Division of Drinking Water and Environmental Management, and the CPUC, we reviewed six different water companies and 47 water company parcels.

Our review of the county's business property files showed that of the six water companies only one company had filed a business property statement. Of the companies that are regulated by the CPUC, none had filed a CPUC report with the assessor.

One of the water companies consisted of several parcels. In the brief description contained on the assessment roll, some of the parcels are described as mutual water companies and other parcels are described as utility water companies. The company was actually regulated by the CPUC and should be considered a utility company.

The assessor should require each water company to file an annual business property statement. If the water company is regulated by the CPUC, the assessor should also request a copy of the company's annual CPUC report. In addition, the assessor should require all water companies to submit copies of their articles of incorporation and by-laws. These articles will assist the assessor in the proper classification of each water company.

Implementing this recommendation will provide an audit trail for the assessor's staff and will insure proper valuation.

#### 4. Mineral Properties

There are nine mineral properties on the tax roll in Santa Cruz County. These mineral properties produce sand and gravel, crushed rock, dimension stone, cement shale, and limestone. One appraiser is in charge of valuing the mineral properties.

In our prior survey (1992) we recommended that the assessor: (1) apply Property Tax Rule 469 to all mineral right assessments and (2) include royalty agreements and other essential information in mineral property appraisal files.

A review of the method used by the county to appraise these mineral properties was conducted as part of our fieldwork for this survey report. Annually, the appraiser sends the Aggregate Production Report (SBE-ASD AH 560-A) to the mineral companies, calculates a new taxable value from the submitted information, and enrolls this value. The assessor's staff revised the valuation procedure as specified in Property Tax Rule 469 (Mineral Properties). We commend the assessor's staff for revising mineral rights assessments by applying Property Tax Rule 469.

We also found that, of the four mineral properties under lease in Santa Cruz County, there is current documentation in the appraisal files for two of them. We urge the assessor to complete documentation by obtaining royalty agreements for the remaining producing mineral properties.

5. Manufactured Homes

Certain manufactured homes have been assessed on local county tax rolls since July 1, 1980. Under current law, a manufactured home is subject to local property taxation either because it was first sold on or after July 1, 1980, or because the owner voluntarily requested conversion of a pre-1980 manufactured home from the vehicle license fee to local property tax. Sections 5800 through 5842 prescribe how manufactured homes must be valued and assessed. There are also provisions in both the Health and Safety Code and Vehicle Code that apply to manufactured homes.

There are 90 manufactured home parks in Santa Cruz County. There are also some manufactured homes located on private land. The total number of manufactured homes on the 1995-96 property tax roll is 1,129 with a total assessed value of \$48,706,736.

Housing is scarce and expensive in Santa Cruz County, and a local ordinance controls park rents. Manufactured home park rental spaces range from a low of \$190 per month to a high of \$635 per month.

Our review of the manufactured home program shows that the county is following the statutory provisions and that there are no problems with this program.

## IV. BUSINESS PROPERTY PROGRAM

### A. INTRODUCTION

For the 1995-96 assessment year, the Santa Cruz County Assessor's business property staff consisted of one chief auditor-appraiser, one senior auditor-appraiser, one auditor-appraiser, and an appraiser aide. This staff is responsible for annually processing more than 7,000 business property accounts and 2,500 direct billing accounts (approximately 2,800 boats and 300 general aircraft are handled by an appraiser aide under the direction of the Director of Valuation).

The Assessment Standards Division's (ASD) sampling of the 1993-94 Santa Cruz County Assessor's local assessment roll included 31 secured and unsecured business property assessments. In 12 of these sampled items, the assessor's taxable values differed from the values determined by ASD staff. The local assessment roll values exceeded ASD's appraised values for five of the sampled items, while ASD's appraised values were higher in seven cases. Statistically expanded to represent the total assessment roll, these sample items indicate 1,116 business accounts were overvalued by approximately \$49.5 million, while 1,681 accounts were undervalued by approximately \$63 million.

The assessment sampling included eight boats and one aircraft. The assessor and the ASD staff agreed on the value of the sampled aircraft. The assessor's values exceeded ASD staff's values for two sampled boats, while ASD staff's values were higher for one sampled boat.

Since the last ASD survey report (1992) of the Santa Cruz County Assessor's Office, several changes have occurred in the business property section. At that time, the business property staff consisted of one chief auditor-appraiser, one senior auditor-appraiser, two auditor-appraisers, and one appraiser aide. The assessor permanently lost one auditor-appraiser position and another auditor-appraiser position was vacant for an extended period of time. The assessor filled the vacant auditor-appraiser position early in 1996.

At the time of the fieldwork for this survey, the assessor was applying for funds under Chapter 914 of the Statutes of 1995 (Assembly Bill 818). If approved, the assessor will use a portion of the funding to temporarily fund two auditor-appraiser positions for three years. The two additional auditor-appraiser positions should staff the business property section adequately, so the section can perform all the necessary functions required by law. The Assembly Bill 818 funds are only a temporary solution, as the funds are available only for three years. In the long run, the assessor will need additional permanent positions.

Our current review found several problem areas in the business property section. Most of these problems are a direct result of staffing problems.

There is no written procedures manual for the business property section. In order to adequately perform the duties of assessment, standard operating procedures must be laid out in a written form. This provides standardization and a basis for training new employees.

A second problem is the failure to complete the annual mandatory audits in a timely manner and failure to obtain waivers of the statute of limitations. Mandatory audits are one of the statutory requirements of the assessor's office and failure to obtain waivers allows the possibility of lost tax revenue.

Other recommendations include correction of the inflation factor applicable to leasehold improvements in the business property section and revision of the vessel assessment procedures.

## B. PROCEDURES MANUAL

RECOMMENDATION 5: Develop a written policy and procedures manual for the operation of the business property section.

While the real property section of the Santa Cruz County Assessor's Office has a comprehensive policy and procedures manual, this is not the case with the business property section. This section has only loose-leaf instructions on such topics as business property situs canvassing, business property statement printing procedures, and property statements processing. These instructions, plus some unwritten policies that are shared among the auditor-appraisers, comprise the greater part of the business property section's procedures. There are no written procedures for assessing leasing companies, leasehold improvements, aircraft, vessels, or for direct billing.

A procedures manual would provide broad policy guidelines, specific standards, and uniform procedures to assist staff in the preparation of audit and appraisal reports, as well as other technical work products. They can help ensure that the work product is consistent with approved policies and practices. In addition, a procedure manual can also be used as training tools for new employees.

A written policy and procedures manual would be very useful in insuring continuity, standardization, and equal treatment to all taxpayers. We recommend that the assessor develop a written policy and procedures manual for the operation of the business property section.

## C. AUDIT PROGRAM

Section 469 provides that the assessor shall audit a taxpayer's profession, trade, or business once every four years whenever any locally assessable trade fixtures and business tangible personal property have a full value of three hundred thousand dollars (\$300,000) or more.

The previous ASD survey report of the Santa Cruz County Assessor's Office recommended that the assessor's staff obtain signed waivers of the statute of limitations. In addition, we suggested that they improve their audit documentation.

Our current survey included a review of those areas plus an examination of audit selection, monitoring reports, audit quality, statutory compliance, and audit review procedures.

The assessor's staff has improved the quality of audit documentation, but they are still not obtaining signed waivers of the statute of limitations. In addition, they are not completing the mandatory audits on schedule.

1. Mandatory Audit Program

RECOMMENDATION 6: Reallocate staff duties so that the auditor-appraisers can complete more mandatory audits as required by Section 469.

For the 1995-96 assessment year, there were 375 mandatory audit accounts. This equates to approximately 94 audits per year, for a four-year cycle. The numbers of mandatory audits completed over the last four years are:

1995-96	24
1994-95	32
1993-94	19
1992-93	39

With the current staffing level, the assessor's staff cannot complete all the mandatory audits. However, the auditor-appraisers can complete more mandatory audits than they are currently doing.

From January through February the auditor-appraisers conduct situs checks (field canvass) instead of doing audits. In order to stay in compliance with the law, the auditor-appraisers need to concentrate on conducting mandatory audits on a timely basis.

The assessor should first determine which tasks can be completed only by auditor-appraisers, e.g., mandatory audits. Then he should assign those tasks to the auditor-appraisers with other duties as time allows. The business property section should utilize the support staff for field canvassing. This process will allow the assessor to utilize the auditor-appraisers in a more efficient manner and to timely complete more mandatory audits.

## 2. Statute of Limitations

Section 532 provides that an escape assessment found during an audit must be made within four years after July 1 of the assessment year the property escaped assessment or was underassessed. If the assessor's staff cannot complete the mandatory audit within the prescribed time limit, the assessor may ask the taxpayer to grant an extension of time. The taxpayer does this by signing a waiver to extend the statute of limitations, as authorized by Section 532.1.

RECOMMENDATION 7: Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed before the statute expires.

During our current review of the business property files, we found no evidence of waivers being obtained. This is an ongoing problem in the business property section (our 1992 survey report also included a recommendation that the assessor obtain waivers on mandatory accounts when a mandatory audit could not be finished in a timely manner). By failing to obtain signed waivers, the assessor's staff has allowed some taxable property to permanently escape assessment because they could not enroll the escapes within the time specified in the statute of limitations.

We again recommend that the assessor's staff obtain waivers whenever the mandatory audit will not be completed before the statute expires. The assessor's staff has the capability to determine which mandatory accounts are due for audit. If the staff knows that they cannot perform an audit before the statute expires, they should request that the taxpayer sign a waiver.

## 3. Offsetting Assessments

RECOMMENDATION 8: Follow statutory requirements when determining audit results and enrolling underassessments or overassessments.

In a multiple year audit, there are often underassessments (escapes) for one year and overassessments (refunds) in another. The current practice of the Santa Cruz County Assessor's business property section in a multiple year audit is to enroll the net difference in underassessments or overassessments for the audit period in the latest audited year.

There is no code provision to provide that underassessments and overassessments can be offset to determine a net assessment for the latest audited year. Rather, Section 533 allows the offset of tax refunds against tax liabilities, not full values. This section reads, in part that:

“If the assessments are made as a result of an audit . . . the tax refunds resulting from the incorrect assessments shall be offset against proposed tax liabilities, including accumulated penalties and interest, resulting from escaped assessments for any tax year covered by audit.”

Under the current Santa Cruz County practice, differences in tax rates between years, accumulated penalties, and interest are not considered in offsetting underassessments and overassessments. To accurately include these in the tax bill requires that the escape or refund be made in the correct year. Therefore, we recommend that the business property section process the full value escape or refund by year incurred. Then the tax refunds can be properly offset against any proposed tax liabilities.

#### D. BUSINESS PROPERTY STATEMENT PROCESSING

The processing of business property statements is one of the most time consuming tasks in the business property program. Most counties utilize not only the entire business property staff but also some of the real property staff to accomplish this task. Whether the statement is simple or complex, statement processing is a tedious process. The possibility of making errors during processing is always present, whether the county is large or small.

**SUGGESTION 6:** Streamline the processing of business property statements by: (1) using the Board-prescribed property statement for apartments; (2) purging old data from business property files; and (3) revising the assessor's form ASR 223A.

##### Use Board-Prescribed Property Statements for Apartments

In 1985 and prior years, the Santa Cruz County Assessor's Office was using the Board-prescribed Apartment House Property Statement (AH 571-R) to discover and assess taxable apartment personal property. Starting in 1986 and thereafter, the assessor's staff has used the Business Property Statement (AH 571-L) in place of the AH 571-R. We suggest the assessor reinstate the use of the AH 571-R form for apartment personal property.

Implementing this suggestion can be economical since AH 571-R is a one-page, two-sided form, whereas the regular AH 571-L is at least five pages. In addition, the AH 571-R is more suited for business property located in apartment houses and will be easier for apartment owners to understand and complete.

Later in this section of the report, we recommend that the assessor send property statements to owners of apartment personalty assessed under the direct billing program.

##### Purge Old Data From Business Property Files

Our review of the business property files revealed that they contain obsolete property statements, miscellaneous correspondence, and other papers that have accumulated since 1977. In addition, some apartment property files contain records that have accumulated since the late 1960's. One account that we reviewed contained records going back to 1961.

Section 465 provides for the destruction of any document containing information obtained from taxpayers when seven years have elapsed since the lien date for the year for which the information was obtained. For example, all property statements and miscellaneous documents for 1989 and prior years could be destroyed on or after March 1, 1996.

We suggest that the assessor's staff regularly purge the business files of property statements and miscellaneous records that are more than seven years old. Purging unnecessary and excess paperwork will create additional filing space and make it easier to locate relevant information within individual files.

#### Revise the Assessor's Form Record of Taxpayer Contact (ASR 223 A)

The assessor's Form ASR 223 A is an 8 1/2 x 5 1/2-inch form that records information affecting a particular account mostly from a taxpayer through the counter or telephone contact. The shortcoming of the form is that it is small and could be buried under documents or business property statements, since the business property section has not purged its files in the last 10 years. This unfortunate oversight could reduce the effectiveness of the form as a "red flag" in the processing of business property statements.

We suggest the assessor expand this form into an 8 1/2 x 11-inch form to include other pertinent information and attach or staple it to the inside jacket of every account folder.

#### E. DIRECT BILLING

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified low-valued business accounts without the annual filing of a business property statement. An initial value is established and continued for several years, with property statement filings or field reviews required periodically.

Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings.

The direct billing assessment procedure is beneficial to the taxpayer and the assessor. Many small businesses do not have accounting records suitable for the preparation of accurate business property statements every year. Direct billing streamlines filing requirements by reducing the amount of paperwork for small businesses. This results in a reduction in the number of property statements that must be processed by the assessor's staff, culminating in the availability of more time for the auditor-appraisers to conduct audits.

**SUGGESTION 7:** Enhance the direct billing program by sending business property statements to direct billing accounts every fourth year.

Under the direct billing program it is the assessor's policy to send business property statements to regular business accounts after an account has been directly assessed for three years, except for apartments and motels. We have reviewed numerous motel and apartment files on the direct billing program and found that these taxpayers have not received a business property statement for the last 10 years.

The direct billing program can be productive and effective only if direct billed accounts are periodically reviewed and updated. This can be accomplished by sending business

property statements to all direct billed accounts on a four-year cycle, regardless of their business type or classification, or by performing a field appraisal of each location.

We suggest that the assessor improve the direct billing program by sending business property statements to all direct billed accounts every four years.

## F. SPECIFIC PROPERTY TYPES

### 1. Tenant Improvements

Tenant Improvements are building improvements or fixtures installed as additions to the basic building shell. They typically include display fronts, lighting, carpets, and partitions. These items are usually included in replacement cost estimates (processed by real property appraisers) and are reported on property statements (processed by business property personnel). It is easy for duplications and omissions to occur. The Santa Cruz County Assessor's Valuation Division does a good job of coordinating the assessment of these items among the real property section and the business property section.

The real property section determines how tenant improvements will be assessed. When the real property section discovers new construction as tenant improvements, it decides whether the tenant improvements will be assessed by the real property section or the business property section. The decision regarding assessment responsibility is communicated on a Structural Improvement Memo (STIM). The STIM, when completed by the real property appraiser, advises the auditor-appraiser assigned to the account of the need to assess (or not assess) the structural improvements or fixtures reported by the taxpayer on the business property statement.

When the auditor-appraiser receives a business property statement from the taxpayer reporting improvements or fixtures, the auditor-appraiser sends a STIM to the real property appraiser. The appraiser then advises the auditor-appraiser to assess or not to assess the property in question. This form of tracking tenant improvements is a good way to avoid double assessments and failure to assess property. We did, however, find one problem area in the assessment of tenant improvements.

**RECOMMENDATION 9:** Apply the correct inflation factor to values of leasehold improvements assessed by the business property section.

Section 51 requires an annual adjustment of the base year values of improvements using an inflation factor, which will be the lower of 2 percent per year or the cumulative California Consumer Price Index. The Santa Cruz County Assessor's office uses an inflation factor rounded to two decimal places for improvements assessed by the business property section, while the real property section is assessing improvements using the inflation factor provided by the State Board of Equalization (the most recent factor was rounded to four decimal places<sup>9</sup>). Because of these conflicting practices, over time two properties with identical base year values will have different adjusted base year values.

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<sup>9</sup> Letter to Assessors' 96/17 dated February 27, 1996.

The assessor should reprogram the computer in the business property section to properly adjust the base year value of the tenant improvements. If the computer cannot be reprogrammed, the business property section should manually make the proper computation.

## 2. Vessels

For the 1995-96 tax roll the Santa Cruz County Assessor's Office assessed 2,797 vessels with a total assessed value of \$29,745,013. The primary methods of discovering assessable vessels are Department of Motor Vehicles (DMV) reports, harbor master's marina reports, referrals from other counties, and an occasional field canvass or "dock walk." Even though the vessel assessment program is not part of the business property section, it will be included in this portion of the report because the assessment of vessels is normally part of the business property program of most assessor's office and because it is under the direct supervision of the director of valuation.

RECOMMENDATION 10: Upgrade vessel appraisal procedures by: (1) improving the mass appraisal technique used to determine the market value of pleasure boats; (2) applying late filing penalties only when using Board-prescribed forms; and (3) requiring certain vessel owners to file annual vessel property statements.

### Improve the Mass Appraisal Technique for Appraising Pleasure Boats

In Santa Cruz County vessels are assessed at market value using the National Automobile Dealers Association Small and Large Boat Appraisal Guide (NADA) or the BUC Research Used Boat Price Guide (BUC). The auditor-appraiser enrolls the reported purchase price if it falls within the NADA or BUC value range. If the reported purchase price significantly differs from the NADA or BUC value range, the auditor-appraiser uses the low value in the value range of the guides. This conservative approach of using the lower value is due to the "soft" market for boats and seems reasonable at this time.

Once the initial value is set, future assessments are annually reduced by 5 percent. While this simplifies the assessment process, it assumes a fixed depreciation rate for each boat that may or may not reflect market value. This fixed depreciation rate for boats is arbitrary, lacking any study, research, or market survey to support the annual 5 percent depreciation.

A more valid method would be to first categorize all boats into two major groups (new and used) and, in each group, six subgroups (cruiser/powerboat, sailboat, inboard, onboard, inboard/outboard and jet ski). Second, calculate trends in market values for these subgroups by comparing a sample of each subgroup in published boat valuation guides for the current year and previous year. Finally, apply the trend factors to all boats within each subgroup.

This approach is much more sound from an appraisal viewpoint than having a fixed depreciation rate applied to all boats regardless of type or age because a closer approximation of values will be attained and uniformly applied to a group of boats.

We made the same recommendation to the assessor in our 1992 report of Santa Cruz County. However, the assessor has not adopted it. We are again recommending that the assessor revise the valuation method for vessels.

#### Apply Late Filing Penalties Only When Using Board-Prescribed Forms.

The Santa Cruz County Assessor's Office uses a vessel owner's report (VOR) instead of the State Board of Equalization prescribed Form AH 576-D or Vessel Property Statement (VPS). When the VOR is not returned by the taxpayer within the time allowed by the assessor's office, a 10 percent penalty is applied to the assessment under the provisions of Section 463.

Assessors require certain taxpayers to file a signed property statement under Section 441. Section 452 provides, in part, that "the Board shall prescribe in detail the content of property statements, including the specific wording, to be used by all assessors." In addition, Section 171 of Title 18 of the California Code of Regulations (Property Tax Rule 171) requires the Board of Equalization to approve all property statements.

The 10 percent penalty provision of Section 463 applies only if a Board-prescribed form is used. Santa Cruz County's VOR, though a standard Board-approved form, is not a Board-prescribed form. Therefore the assessor cannot apply the penalty assessment under Section 463 if the taxpayer does not file the VOR.

We recommend that the Santa Cruz County Assessor's Office use the Vessel Property Statement (AH 576-D) for boat/vessel information so the 10 percent penalty for late or nonfiling can be legally applied. If the assessor elects to use the VOR, then the assessor cannot apply the penalty under Section 463. All reference to the Section 463 penalty must be removed from the VOR.

#### Require Certain Vessel Owners to File Annual Vessel Property Statements

When a vessel is purchased in or moved into Santa Cruz County, a vessel owner's report (VOR) is mailed to the owner requesting pertinent assessment information. Subsequently, no other information is requested of pleasure boat owners unless the boat is sold, wrecked, stolen, abandoned, or permanently moved outside the county's jurisdiction.

Section 441 requires owners of taxable personal property with an aggregate cost of \$30,000 or more for the initial assessment year or an aggregate cost of \$100,000 or more for any subsequent assessment year to file a signed property statement with the assessor.

We recommend that each year the assessor send a vessel property statement (AH 576-D) to all vessel owners whose initial assessment was \$100,000 or more. This change not only conforms to the statutory provision of requiring certain owners of personal property to file a property statement, but is also an important tool for discovery of property subject to assessment. Traditionally, owners of such expensive vessels install additional equipment. Requiring them to file a property statement will help in the discovery of this equipment.

### 3. Computers

The valuation of computers and related equipment (herein referred to as computers) has been a contested issue between taxpayers and assessors for the last few years. In its continuing effort to maintain proper, equitable, and uniform property tax assessment, the Board, in Letter to Assessors (LTA) 95/26, dated April 5 1995, recommended valuation factors for assessors to use when valuing non-production computers for the 1995 lien date.

For the 1996 lien date, the Board issued LTA 96/19 (dated March 6, 1996) which contained tables for personal and mainframe computers. LTA 96/27 (dated April 3, 1996) expanded these two tables into three tables, i.e., personal (\$25,000 or less), mid-range (\$25,000 to \$499,000), and mainframe (\$500,000 or more). These new tables contained factors that were developed after consultation with the computer industry and the assessors. LTA 96/27 also stated that the SBE staff had been instructed to continue acquiring and analyzing data for the mid-range table. No additional data was incorporated into the mid-range table that was set forth in LTA 96/27. However, it is the Board's position that the proper application of the factors would yield a reasonable estimate of current market value of computers for the 1996 lien date.

**RECOMMENDATION 11:** Assess computers using the Board's recommended factors.

For the 1995 lien date, the assessor appropriately valued computers by using the Board-recommended factors as contained in the LTA 95/26. However, in assessing computers for the 1996 lien date, the assessor did not follow the recommended factors as contained in LTA 96/27. The assessor's staff correctly applied the valuation factors from LTA 96/27 for mainframe computers and personal computers, but for the mid-range computers, the assessor's staff substituted the factors from the 1995 "over \$50,000 component cost" table.

The 1996 factors were developed after extensive data-gathering, analysis, and consultation with the computer industry and assessors. The data for mid-range computers was less extensive and less consistent as compared to the data for mainframe and personal computers. In recognition of the assessors' concerns over the mid-range factors, the Board directed its staff to acquire additional data for mid-range computers and, if such additional data indicated that different factors would be more appropriate, then the Board could issue new guidelines. Absent such data and new factors, LTA 96/27 contains the current Board's recommendation for the valuation of computers.

Although it can be argued that additional data should have been obtained to develop the 1996 factors for mid-range computers, the Board adopted the mid-range table using the data available. We believe that the data for the 1996 factor are superior to that used in the 1995 factors. Use of the 1995 valuation factors is contrary to the Board's guidelines, and results in an assessment other than that recommended by the Board.

We therefore recommend that the assessor assess all computers by following the factors contained in our LTA 96/27 unless he has better, supportable information indicating other factors.

## V. OTHER ASSESSMENT PROGRAMS

### A. INTRODUCTION

In addition to the two major assessment programs that the assessor manages (real property and business property), the assessor also maintains a number of other assessment programs to ensure that a statutorily correct roll is produced. In Santa Cruz County, these other assessment programs include: Proposition 8 (decline in value), roll changes and escaped assessments, disaster relief, low-valued property exemption, personal effects exemption, supplemental assessments, mapping, and others. We reviewed these assessment programs and made a number of recommendations to enhance the operation of the office.

### B. DECLINE IN VALUE (PROPOSITION 8)

#### 1. Definition

Section 51 of the Revenue and Taxation Code (all reference to statutory provisions are to the Revenue and Taxation Code unless otherwise indicated) implements Section 2(b) Article XIII A, of the California Constitution, requiring the assessor to enroll the lower of the current market value or the factored base year value, as the taxable value for the lien date. A market value that is less than the factored base year value is referred to as a “Proposition 8” value (in recognition of the ballot title of this Constitutional amendment). If the property’s market value subsequently increases above the factored base year value on a future lien date, then the factored base year value resumes as the taxable value.

Property values in many areas of California have declined or stagnated as a result of recent economic conditions. Consequently, county assessors have had to make “Proposition 8” appraisals in unprecedented numbers. The Santa Cruz County Assessor’s Office has been no exception.

#### 2. Program

In Santa Cruz County declining value reductions (“Proposition 8”) are made either by an appraiser or by a computer program. Santa Cruz County reduced about 8,600 parcels on 1995-1996 roll; of these, about 87 percent (7,462) were reduced through the computer program.

The computer review program administered by the standards division was developed after our last survey (1992). This program is used for single-family residences, condominiums, and townhouses. The assessor's staff could not find enough homogeneous parcels in multi-residential, rural, or commercial/industrial properties to effectively use this program for those types of properties.

This program initially groups all sales of single-family residences by map book, then by quality class, and condominiums and townhouses by map book, then by year of sale. A price per square foot indicator is developed for each sold property. These indicators, along with

prior year indicators, are then reviewed by the appraiser responsible for the particular map book, to determine whether any reduction is warranted and the extent of the reduction.

If a reduction is warranted, then the computer program applies a percentage reduction to all single-family residences, condominiums, and townhouses in the specific geographical area. However, this reduction in assessment can be overridden by the appraiser. The appraisers may have an occasion to review a property or area due to a request from a taxpayer, and if, they disagree with the computer-generated reduction, they can make the appropriate changes. Overall, this is a very good program for handling declines in value. It gives the area appraiser considerable input into the process of property assessment review.

### 3. Taxpayer Letter

The Santa Cruz County real estate market is not uniformly moving in any one direction. Some property values are down, some have remained static, and some have increased. In anticipation of an increase in value, the Santa Cruz County Assessor's Office has drafted a letter informing property owners of the provisions of "Proposition 13" and "Proposition 8." The letter informs the property owner on how the assessed value of their home is determined and the basis for assessment change each year due to the inflation index. The letter also informs the property owner that if there is a reduction in assessment, the reduction is only temporary. As soon as the real estate market recovers, the assessment on their property can be increased until it reaches its factored base year value (i.e. the purchase price or newly constructed value plus the annual inflation factor).

We commend the assessor on this proactive step. In addition to providing good background information on changing property tax assessments, the letter also prepares the taxpayer for any potential increases in assessment.

## C. ASSESSMENT ROLL PROCEDURE

### 1. Roll Correction

RECOMMENDATION 12: Correctly identify penalty and escape assessments on the tax roll.

The Revenue and Taxation Code specifies the language required to identify penalties and escape assessments on the roll. Section 463 requires the assessor to apply a 10 percent penalty to the assessment if there was a failure to file property statements timely. When penalties are imposed under Sections 463, notice on the local roll is required in one of three forms contained in Property Tax Rule 261.

Section 531, et seq., provide the statutory provisions to enroll property that was not on the July 1 local roll (escape assessments). Section 533 specifies the caption to be included on the roll for all escaped assessments. If the escape assessment is entered on a roll which is not the roll for the assessment year in which the property escaped assessment, then the entry should be followed with the caption: "Escaped assessment for year 19\_ pursuant to Sections \_\_\_ of the Revenue and Taxation Code." This caption should be included on both the secured and unsecured roll, and for both real property and personal property.

The required citation identifying penalty and escape assessments is missing or incomplete on the Santa Cruz County assessment roll. The 10 percent penalty imposed under Section 463 for the failure to file a property statement timely is properly added to the assessment; however, we found no roll correction with a citation on the secured roll and one correction with an incomplete citation on the unsecured roll identifying those penalties. The citation on the unsecured roll does not adequately identify the classes of property to which the penalty has been applied. Additionally, both secured and unsecured escape assessments lack the citation on the roll.

We recommend the assessor's office include on the roll the required caption of Section 533 on all applicable escape assessments, and one of the Property Tax Rule 261 options for penalties imposed under Section 463. Correcting this problem will require coordination with the county auditor's office and the county's data processing staff.

RECOMMENDATION 13: Enter unsecured escape assessments on the proper tax roll.

Each year, the Santa Cruz County Tax Collector's Office requests the Santa Cruz County Assessor's Office to enter unsecured escape assessments made after the third week in January on the roll being prepared. Thus, unsecured escape assessments made during the five-week window period (last week of January through February 28) are entered on the roll being prepared rather than the current roll. Although the assessor's office is aware that this practice conflicts with Section 533, they have been following the tax collector's request for a number of years.

Section 533 provides that escape assessments shall be entered on the roll for the current assessment year as defined in Section 118. Section 118 defines "assessment year" as the period beginning with a lien date and ending immediately prior to the succeeding lien date for taxes levied by the same agency. Assessors' Handbook Section 271, Assessment Roll Procedures, describes in detail the enrollment process for escaped assessments.

The escaped assessment applicable to a prior assessment year is entered on the current roll (July 1 to and including the last day of February of the following calendar year) or the roll being prepared (March 1 through and including June 30 of the same year). For instance, escaped property enrolled on February 1, 1996 for the 1994 year is entered on the 1995-1996 tax roll. However, enrollment on March 5, 1996 requires the escaped assessment to be entered on the 1996-1997 roll. The same principle applies for both the secured and unsecured assessment roll, and for both real and personal property.

Santa Cruz County is losing revenue because enrolling unsecured escaped assessments made during the five-week window period on the roll being prepared rather than the current roll forestalls collection by five to six months. The taxes due on the assessment would become delinquent on the last day of the month succeeding the month of enrollment (Section 2922). If unsecured escapes made during the five-week window period are entered on the roll being prepared, the taxes due on such assessments will not become delinquent until August 31. However, if these unsecured escapes were properly entered on the current roll, they become delinquent on the last day of the month succeeding the month of enrollment, which would be

February 28 for an escape enrolled in January. Consequently, the assessor's current practice of entering unsecured escapes made between the last week in January and February 28 on the upcoming roll delays the receipt of the tax revenues for five to six months. Thus, the county is losing the use of tax revenue for this period.

Therefore, we strongly recommend that the assessor's office enter unsecured escape assessments on the proper tax roll as provided by Section 533. Coordination with the county auditor and tax collector may be necessary.

2. Interest on Escape Assessments

RECOMMENDATION 14: Ensure that business property escape assessments are enrolled under the appropriate code sections and that interest is included where required.

In the 1992 Santa Cruz County assessment practices survey we recommended that the business property section ensure that interest as required by Section 506 is applied when enrolling escape assessments. During our current review, we discovered a large number of enrolled escape assessments where interest should have been applied but was not. In most of those cases, citing the incorrect escape provisions may have caused the omission of the application of interest.

Sections 531, et seq. require interest be included within prescribed circumstances. Assessors' Handbook Section 271, Assessment Roll Procedures, describes in detail the enrollment process for escape assessments and contains a reference table for deciding which escapes should include penalties and/or interest.

Santa Cruz County is losing revenue by not applying Section 506 interest in all instances where required by statute. Therefore, we repeat our 1992 recommendation. We recommend the business property section enroll escape assessments under the appropriate code sections, and ensure that interest is applied where required.

3. Notice of Proposed Escape Assessment

RECOMMENDATION 15: Provide taxpayers with notices of proposed escape assessments as required by Section 531.8.

Section 531.8 was added by Chapter 387 of the Statutes of 1993. Chapter 387 contained numerous provisions relating to assessment appeals, escape assessments, information to be provided to assessees, and established The Morgan Property Taxpayers' Bill of Rights.

Section 531.8 provides that no escape assessments shall be levied before ten days after the assessor has mailed or otherwise delivered to the affected taxpayer a "Notice of Proposed Escape Assessment" with respect to one or more specified tax years. Section 531.8 further specifies that the notice shall prominently display on its face the heading "NOTICE OF

PROPOSED ESCAPE ASSESSMENT.” Letter to Assessors 94/06, dated January 21, 1994, provided guidelines on proper notification and included a suggested form.

The Santa Cruz County Assessor’s Office practice is to enroll routine escape assessments prior to expiration of the required 10-day notification period provided by Section 531.8. Also, the notices the assessor’s office currently provide taxpayers does not include the required heading “Notice of Proposed Escape Assessment” as required by Section 531.8.

We recommend that the assessor’s office revise its current notices to include the required heading and ensure that notification is provided to the taxpayer at least ten days prior to enrollment.

#### D. DISASTER RELIEF

In the 1970’s the Santa Cruz County Board of Supervisors adopted an ordinance authorizing midyear property tax relief for properties damaged by calamity or disaster. The current ordinance (Chapter 4.08 of the County Code) conforms to the requirements of Section 170.

On October 17, 1989 a powerful earthquake struck Santa Cruz County and the surrounding bay area, resulting in extensive property damage. Property owners obtaining building permits for earthquake repairs received disaster relief applications, but not all property owners completed and returned them. There are probably many property owners who never applied for building permits and therefore never received a disaster relief application.

The county’s disaster relief ordinance specifies that the application must be filed with the clerk of the board of supervisors within 120 days of the occurrence of the calamity (Chapter 4.08.020(A)), but the assessor accepted applications through the end of 1990 for adjustments to the 1989-90 and 1990-91 rolls. The assessor waived the filing deadline in the interest of equity to property owners because of the large numbers of property involved, extensive damage, and disruption of communications.

During fieldwork for the prior survey (1992) there were still about 900 properties that had suffered earthquake damage that had not been reviewed. For the 1995-96 roll, all of these properties have been reviewed.

We commend the assessor for maintaining an excellent disaster relief program. We have a few suggestions to improve an excellent program.

SUGGESTION 8: Revise the form for requesting reassessment of property damaged by calamity or misfortune.

Santa Cruz County's current disaster relief application form does not contain a statement by the applicant that the property was damaged without the taxpayer's fault. This will allow non-qualified owners/taxpayers to apply for disaster relief.

Section 170 provides in part that "every assessee of any taxable property, or any person liable for the taxes thereon, whose property was damaged or destroyed without his or her fault, may apply for reassessment of that property as provided herein." Therefore, the disaster relief application form should include a statement that the damage was not the fault of the owner/taxpayer, e.g., "The property was not damaged or destroyed through his or her fault (owner/taxpayer)."

Revising the disaster relief application form will clarify the application of Section 170 and help eliminate unqualified applicants.

SUGGESTION 9: Expand methods of discovering disaster relief.

The assessor presently learns of disasters, e.g., fires, through property owners, newspapers, word of mouth, or field observation. Our review showed that these efforts are not sufficient to discover all disasters.

We examined records of nine fires, which included two that did more than \$30,000 in structural damage, reported by the City of Santa Cruz and the California Department of Forestry in Felton. In addition, while reviewing appraisal records we discovered two instances where disaster relief was not granted when it should have been. In both situations, repairs were completed without building permits.

In the past, the assessor attempted to receive information from the Santa Cruz City Fire Department by supplying them with post cards to mail back to the assessor's office whenever fire information became available, but so far the fire department has not cooperated.

We suggest contacting fire department officials and developing a working relationship that would allow a member of the assessor's staff to visit the fire department monthly to photocopy fire reports. As an alternative, the assessor could request that the fire department fax their fire reports directly to the assessor's office. If implemented, these suggestions would greatly assist the assessor's staff in discovering property damaged by disaster.

## E. LOW-VALUED PROPERTY EXEMPTION

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value and personal property with a full value so low that the total taxes, special assessments, and applicable subventions would amount to less than the cost of assessing and collecting them. Under Section 155.20, the board of supervisors shall establish the exemption level uniformly for all classes of property. In determining the level of exemption, the board of supervisors shall determine at what level of exemption the costs of assessing the property and collecting taxes, assessments, and subventions on such property, exceeds the proceeds. Effective January 1, 1996, the exemption level was raised from \$2,000 to \$5,000 (Chapter 497 of the Statutes of 1995).

The County of Santa Cruz has had a low-valued property exemption resolution in effect for many years. In 1995, the board of supervisors revised the level of exemption, effective for the 1995-96 fiscal year and thereafter, to include all real property with a base year value or personal property with a full value of \$2,000 or less, and certain manufactured home accessories with a base year value or full value of \$5,000 or less. Only those manufactured home accessories, as defined in Section 18008.5 of the Health and Safety Code, installed on or added to manufactured homes that were purchased prior to July 1, 1980 and are subject to vehicle license fees, qualify. The board in 1996 adopted a second low-valued property exemption resolution increasing the level of exemption on personal property, excluding boats and aircraft, to \$5,000 or less beginning with the 1996-97 fiscal year.

RECOMMENDATION 16: Request that the board of supervisors revise the county's low-valued property exemption resolutions to conform to Section 155.20.

The two Santa Cruz County low-valued property exemption resolutions, as adopted, provide for different exemption levels between classes of property as well as within the same class of property. Currently, the exemption level in Santa Cruz County for real property and certain personal property (i.e., boats and aircraft) is \$2,000 or less, but the level for other personal property and certain manufactured home accessories is \$5,000 or less.

Section 155.20 requires that the exemption level be uniform for all classes of property. The board of supervisors should determine an exemption level that is appropriate for all classes of property. Once that level is determined, the level should be uniformly applied to all property, real and personal.

Therefore, we recommend that the assessor request that the board of supervisors revise the low-value property exemption resolutions so that all classes of property are treated uniformly.

## F. PERSONAL EFFECTS EXEMPTION

Section 224 provides that personal effects and household furnishings of any person shall be exempt from taxation. It also clarifies the phrase “personal effects and household furnishings” to exclude boats, aircraft, vehicles, or personalty held or used in connection with a trade, profession, or business.

Section 134 of Title 18 of the California Code of Regulations (Property Tax Rule 134) provides in relevant part that:

“Household furnishings, personal effects . . . owned by any individual but not held or used in connection with a trade, profession, or business or for the production of income are exempt from ad valorem taxation . . . Household furnishings are personal property and include such items as furniture, appliances, rugs, cooking utensils, and art objects . . . Personal effects is a category of personal property which includes such items as money kept for household use, clothing, jewelry, tools, hobby equipment and collections, and other recreational equipment.”

In *Lake Forest Community Association v. County of Orange* (1978) 86 Cal. App. 3d 394, a California appellate court held that the personal effects and household furnishings exemption extends to homeowners’ associations and that the statutory language “any person” should not be restricted to mean “householders.” Furthermore, the court declared that it is not necessary that a property be physically a part of a household for it to be considered as a household furnishing. The court’s decision held that personal property kept for household use or purposes and held by the association for the “exclusive use of its members” qualifies for the personal effects and household furnishing exemption.

RECOMMENDATION 17: Exempt personal property owned by homeowners’ associations in accordance with the provision of Property Tax Rule 134.

Our review of the Santa Cruz County Assessor’s practice of assessing personal property owned by homeowners’ associations show that they are being assessed in a manner similar to regular businesses. The business property statement shows no distinction as to whether the associations’ reported equipment is personal effects and/or household furnishings which fall under the purview of Section 224.

Under the household furnishings and personal effects exemption provided in Section 224, and unlike most property tax exemptions, an eligible owner need not file any claim for exemption to enjoy its benefit. The responsibility lies with the assessor to make the proper determination as to whether the property qualifies for exemption as personal effects and/or household furnishings as defined in Property Tax Rule 134.

We recommend that the assessor exempt (unless there is evidence to the contrary) personal property owned by homeowners’ associations in accordance with Property Tax Rule 134.

## G. SUPPLEMENTAL ASSESSMENTS

The current method employed by the Santa Cruz County Assessor's Office to process supplemental assessments involves levying the supplemental assessments without making any notation on the current roll or the roll being prepared of pending supplement billings. Supplemental assessments must comply with the provisions of Sections 75 through 75.80 for changes in ownership and the completion of new construction on and after July 1, 1983.

Section 75.30 directs the assessor and auditor as follows:

“Whenever the assessor determines that a change in ownership or the completion of new construction has occurred, the assessor shall place a notice of the pending supplemental billing on the roll being prepared and shall notify the auditor, who shall place a notation on the current roll or on a separate document accompanying the current roll that a supplemental billing may be forthcoming.”

The Santa Cruz County Assessor maintains a computer data base which contains the information for the current roll and the roll being prepared. Although the data base does not create a supplemental list or notation for pending supplemental billing, it still contains the necessary information on a separate screen. This computer system appears to be adequate in that it complies with the information needs of Section 75.30 for the county auditor, the tax collector, and the public.

RECOMMENDATION 18: Request that the board of supervisors adopt a county resolution allowing the county assessor to cancel small supplemental assessments.

The Santa Cruz County Assessor's Office does not enroll supplemental assessments of less than \$2,000, but instead enrolls the added value on the Section 601 roll. There is no current provision in the County Code allowing the assessor not to enroll these small supplemental assessments.

Section 75.55(b) allows county boards of supervisors to authorize the assessor to cancel small supplemental assessments producing less than \$20 in taxes. With such a resolution, the assessor could determine what level of assessment, extended at the average county tax rate, would produce \$20 or more in supplemental taxes. Any supplemental assessment below this level could then be legally canceled. This cancellation procedure, if approved by the board of supervisors, should then be a formal written directive to the appraisal staff.

If the assessor can prevail upon the Santa Cruz County Board of Supervisors to pass such a resolution, there will be a sound legal basis for this existing assessment practice, provided the assessor's staff does not exceed the \$20 limit. We recommend that the assessor pursue this course of action.

## H. MAPPING

In our 1992 assessment practices survey, we commented on the automated countywide mapping system that the assessor had initiated. At that time, the assessor's drafting staff was in the process of creating a base map covering the entire County of Santa Cruz. This base map, which was completed in 1992, was produced electronically using two different approaches: (1) the old line map pages were optically scanned into an electronic format (termed a "raster"); (2) staff created new map pages and performed maintenance to existing map pages with AutoCad, the computer-based drafting program utilizing coordinate geometry. Map pages created with AutoCad are termed "vectors."

At the time of our survey fieldwork in 1990, the assessor hoped that his mapping staff would be able to create a full-blown GIS (geographic information system) by "layering in" the boundaries of various districts (general plan areas, special assessment districts, supervisorial districts, fire protection districts, etc.) over the electronic base map. It was also hoped that the entire assessor's mapping system would be available to the appraisal staff via computer terminals located in the assessor's office.

The anticipated system had not yet fully materialized during the time of our fieldwork for this report (March 1996). The county planning department has assumed the responsibility for "layering in" more than 60 different districts over the assessor's base map, but the GIS had not been completed due to funding constraints. In addition, the assessor's budget had been cut since 1992, and currently there was no appropriation to obtain terminals and other hardware necessary to complete the GIS and make it available to various county departments.

We commend the assessor for his long-range planning and perseverance, and we hope that ultimately the GIS will become a reality.

## I. INNOVATIONS

The assessor established an automated facsimile program in 1994 called "CruzFax." This program allows individuals or organizations to obtain property characteristics from the assessor and, beginning this year, permit history by use of a fax machine. The assessor has dedicated a personal computer and a fax system to this program.

In order to obtain this service, an applicant must first complete an application form with the assessor's office and pay a \$25.00 sign-up fee. Thereafter, any time the applicant obtains a document by fax, there is a \$3.00 charge.

The assessor's office maintains this program and retains all the revenue collected (about \$500/month), even though, some of the information is permit information provided by the

building department. The assessor's office refreshes the database once a month. The billing is done automatically once a month by the computer program. This has proved to be a successful program. We commend the assessor for his innovative approach to help taxpayer services.

## THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing 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 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, 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 Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's Assessment Standards Division (ASD) on a five-year cycle and 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 three value strata, identified and placed into one of five assessment categories, as follows:
  - a. Base year properties -- those properties the county assessor has not reappraised for either an ownership change or new construction since the previous ASD assessment sampling.
  - b. Transferred properties -- those properties where a change in ownership was the most recent assessment activity since the previous ASD assessment sampling.
  - c. New construction -- those properties where the most recent assessment activity was new construction added since the previous ASD assessment sampling.
  - d. Non-Proposition 13 properties -- those properties not subject to the value restrictions of Article XIII A.

- e. Unsecured properties -- those properties on the unsecured roll.
- (3) From the assessment universe in each of these fifteen (five assessment types times three value strata) categories, a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. (A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values.) Because a separate sample is drawn from each of these assessment types and value categories, the sample from each category is not in the same proportion to the number of assessments in every category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each category is multiplied by the ratio of the number of assessments in the particular category to the number of sample items selected from the category. 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.

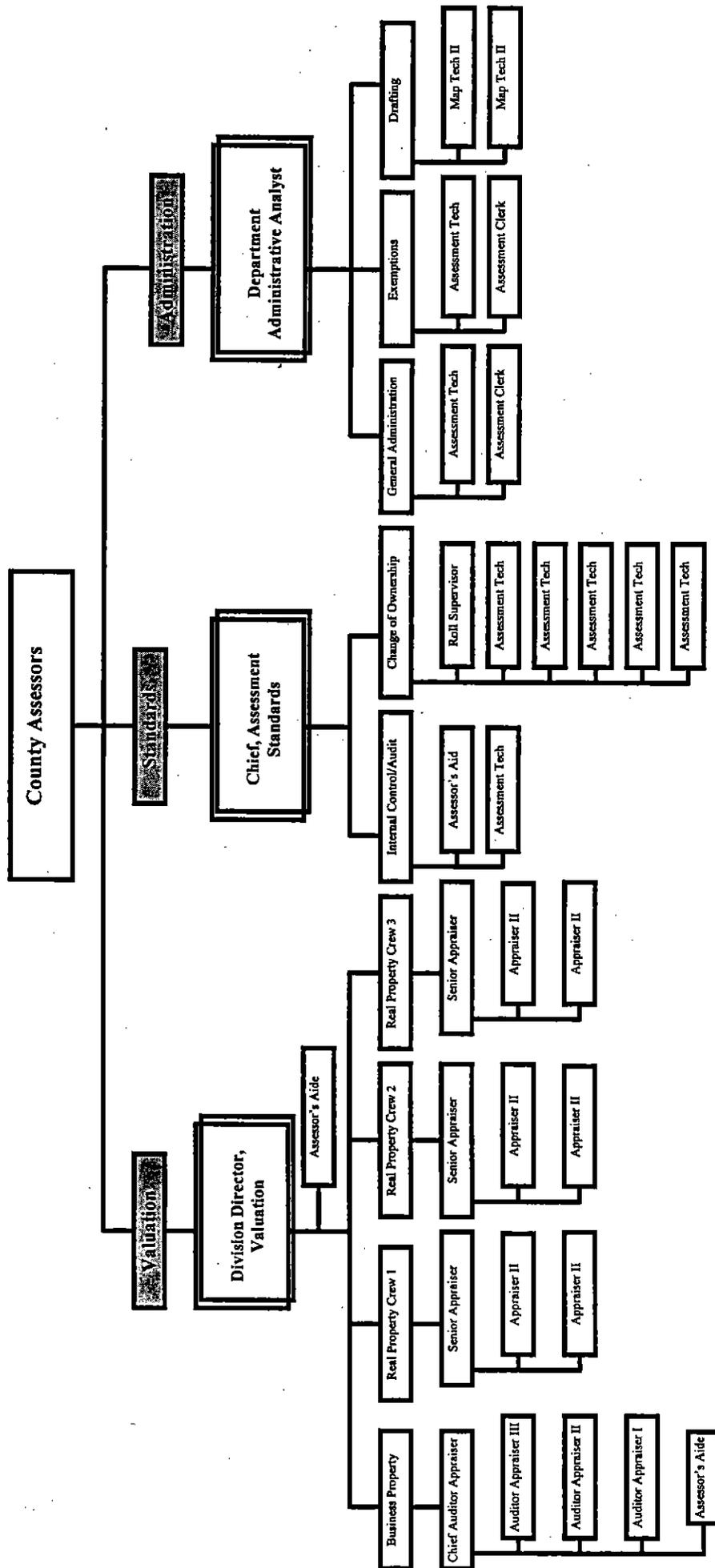
- (4) The field investigation objectives are somewhat different in each category, for example:
- a. Base year properties -- for those properties not reappraised since the previous ASD assessment sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being 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 since the previous ASD assessment 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 since the previous ASD assessment 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, do we concur with the amount enrolled?
  - e. Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- (5) 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.
- (6) The results of the sample are then expanded as described in (3) 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.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or

eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the Assessment Standards Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as (1) conflicting legal advice, (2) construction performed without building permits, (3) unrecorded transfer documents, (4) assessment appeals board decisions, and (5) factors requiring legislative solution are specifically identified in the text when these problems are reflected in the statistics.

# County of Santa Cruz Assessor's Office Organization Chart



ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



ASSESSOR'S OFFICE

COUNTY OF SANTA CRUZ

GOVERNMENTAL CENTER  
(408) 454-2002  
ROBERT C. PETERSEN  
ASSESSOR

701 OCEAN STREET SANTA CRUZ, CALIFORNIA 95060  
TDD: (408) 454-2123  
FAX: (408) 454-2495

February 26, 1997

RECEIVED

FEB 28 1997

State Board of Equalization  
P.O. Box 942879  
Sacramento, Ca. 94279-0064

Policy, Planning & Standards Div.  
State Board of Equalization

Attn: Richard C. Johnson, Chief  
Assessment Standards Division  
Property Taxes Department

**RE: Assessor's Responses to the Assessment Practices Survey Report Recommendations**

Gentlemen:

Enclosed are my responses to the several recommendations and suggestions contained in your recently concluded survey of the Santa Cruz County Assessor's Office.

My staff and I especially appreciate that professional manner in which your field staff conducted their analysis of our appraisal work. Your external audit function continues to be an extremely valuable periodic review of the work we perform and over the years has provided insights which have assisted in the improvement of our processes.

Very truly yours,

Robert C. Petersen

Assessor

SURVEYLE.WPD

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ASSESSOR'S OFFICE

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COUNTY OF SANTA CRUZ

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GOVERNMENTAL CENTER  
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ROBERT C. PETERSEN  
ASSESSOR

701 OCEAN STREET SANTA CRUZ, CALIFORNIA 95060  
TDD: (408) 454-2123  
FAX: (408) 454-2495

February 26, 1997

California State Board of Equalization  
P.O. Box 942879  
Sacramento, Ca. 94279-0063

RE: Assessment Practices Survey

Following are our responses to the recently concluded survey of the Santa Cruz County Assessor's Office.

**Recommendation One:**

Apply the Section 482 penalty (failure to file a change in ownership statement) in a timely manner

We agree with this recommendation. When the PCOR and COS programs were initially established, extensive use of the penalty sanction was used by this office. As PCOR compliance approached 100% in later years, we only occasionally used a COS and the penalty component of this program was dropped. In the future the penalty will be applied where appropriate.

**Recommendation Two:**

Select appropriate discount rates for possessory interest income capitalization

Possessory interest properties in Santa Cruz County fall into the following categories: slips, hangers, cabins and income producing properties. A market derived yield rate for the first 2 categories does not exist. For income producing properties, we agree with the recommendation.

**Recommendation Three:**

Assess the possessory interests of major users of fairground facilities

The cost effectiveness to implement this recommendation across the range of all fairground facilities is highly questionable. Where large concessionaires exist, such as an annual carnival, we will implement the recommendation.

**Recommendation Four:**

Require every water company to file an annual business property statement and/or the California public Utilities Commission (CPUC) report

We agree with the recommendation and will cure this oversight for the 1997 assessment roll.

**Recommendation Five:**

**Develop a written policy and procedures manual for the operation of the business property section**

We agree that a written policy and procedures manual is needed to augment the existing series of topical instructions and flow charts. The project is scheduled to begin after the 1997 assessments are completed.

**Recommendation Six:**

**Reallocate staff duties so that the auditor-appraisers can complete more mandatory audits as required by Section 469**

AB818 has recently provided funding for two new auditor-appraisers. Production of mandatory audits has increased dramatically and a non mandatory program is being conducted concurrently. Support staff is being used for field canvassing but must be supplemented by auditors.

**Recommendation Seven:**

**Obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed before the statute expires**

Once a year, the statute of limitations expires on one year for every account - not just the large mandatory accounts. Upon catching up to our mandatory audit responsibilities, we intend to return to the practice of requesting a waiver. We continue to waiver for in-process audits.

**Recommendation Eight:**

**Follow statutory requirements when determining audit results and enrolling under assessments or over assessments**

In the consolidation of audit adjustments, it is true that differences in rates are generally ignored (and generally inconsequential). However, when differences in penalty and interest amounts are consequential, separate identifiable billings are used for each year in question. In the future we will collect data that will clarify the soundness of this approach to administering multiple year escapes

In the interest of expediency the consolidation of multi year escapes is beneficial in many cases because: (1) a reduction in audit time (2) a reduction in the cost of preparing and processing roll changes (3) a simplification of paying/receiving adjustments (4) a simplification of the final audit letter stressing the significant issues.

**Recommendation Nine:**

**Apply the correct inflation factor to values of leasehold improvements assessed by the business property section**

We agree that re-programming to account for the difference would be highly desirable. We have been aware of this problem for years, but have not been able to find a cost effective IS solution that this major system rewrite would require. For illustrative purposes, a \$100,000 annual investment in structural improvements over a 20 year period would result in an understatement of the tax bill by \$17.40.

**Recommendation Ten:**

**Upgrade vessel appraisal procedures by: (1) improving the mass appraisal technique used to determine the market value of pleasure boats; (2) applying late filing penalties only when using Board prescribed forms; and (3) requiring certain vessel owners to file annual vessel property statements**

Although we continue to be reluctant about implementing this repeated recommendation for the mass appraisal of pleasure boats, we will commit staff time for the 1997 roll to evaluate the cost to comply. We will continue to use the VOR form, because we find that the information received is more comprehensive than that received on the VPS form. However, where no response is received, we will mail the VPS form and then apply a penalty when no response is received. We will begin with the 1997 roll to use AH576-D for vessels of \$100,000 or more.

**Recommendation Eleven:**

**Assess computers using the Board's recommended factors**

As has been strongly noted to the Board in correspondence, Assessors representing twenty of the twenty-five largest counties containing at least 95% of all mid-range computers elected not to use the BOE recommended tables in valuing this computer category for 1996. Fifteen of the counties chose instead to use the 1995 table that was adopted unanimously the year before by the BOE and accepted by both industry and the California Assessors' Association. Until the outstanding reliable issues regarding the Board's prescribed factors are resolved, we will continue to use the 1995 table.

**Recommendation Twelve:**

**Correctly identify penalty and escape assessments on the tax roll**

This recommendation is part of the subject of an on going inter-departmental roll change task force and we anticipate compliance with the code once this work effort is concluded.

**Recommendation Thirteen:**

**Enter unsecured escape assessments on the proper tax roll**

We are aware of the problem described in this recommendation. The solution to this problem is a part of the work effort described in recommendation 12, which we anticipate concluding in the Spring of 1997.

**Recommendation Fourteen:**

**Ensure that business property escape assessments are enrolled under the appropriate code sections and that interest is included where required**

Since the 1992 recommendation, we have enrolled interest sections as a part of the roll changes written. We have not been completely successful in disclosing all of them. Our on going internal training program will address and resolve the variations in the application of interest on escaped assessments.

**Recommendation Fifteen:**

**Provide taxpayers with notices of proposed escape assessments as required by Section 531.8**

We agree with this recommendation and the various notification letters currently in use will be modified to incorporate the correct Notice Of Proposed Escape Assessment language. The mailing schedule of letters has already been changed to comply with the 10 day notification period provided by Section 531.8.

**Recommendation Sixteen:**

**Request that the Board of Supervisors revise the County's low-valued property exemption resolutions to conform to Section 155.20**

We partially agree with this recommendation. The ordinance will be amended to raise the exemption threshold to \$5,000 for boats and aircraft. Our analysis indicates that a 40% reduction in workload can be achieved with only a 9% decline in assessed valuation. Since these properties are processed annually, the combined savings in staff time, computer services and tax bill processing, justifies the higher exemption level.

Our reading of the statute allows for differential exemption levels and we will continue our practice of a \$2,000 threshold for real property accounts. Generally, these accounts require no personnel attention during the year and it is only the marginal costs of computer record maintenance and tax bill processing that can be offset with a \$2,000 threshold.

**Recommendation Seventeen:**

**Exempt personal property owned by home owners' associations in accordance with the provision of Property Tax Rule 134**

We agree with this recommendation and action has already been taken to exempt the personal property of home owners' associations.

**Recommendation Eighteen:**

**Request that the Board of Supervisors adopt a County resolution allowing the County Assessor to cancel small supplemental assessments**

We agree with this recommendation and a request to the Board of Supervisors allowing the Assessor to cancel small supplemental assessments, is in process.

**Suggestions:**

Following are brief responses to the 9 suggestions incorporated in this survey report:

1. **Assign the clerical aspects of the business property section's work to an Assessor's Aide**  
We are clearly aware of the issues discussed in this suggestions. When we have adequate total staffing, as is the case in fiscal 1996-97, we are doing work assignments as recommended.
2. **Allocate values to land and improvements on direct enrollment transfers on the basis of market value**  
Our 50-50 allocation may not be technically correct, put it is efficient and we have had no complaints from assessees. We will review our direct enrollment programs to determine whether we could include a manual allocation step, by an appraiser, without losing the cost efficiencies gained from a direct enrollment philosophy.
3. **Conduct a market study of airplane hangar rents**  
We don't have the time to conduct a market study of hanger rents. What we will do is work with the airport manager and make use of market rents that we believe he possesses.

4. **Include copies of leases and other pertinent written information in all possessory interest files**  
We generally agree with this suggestion. We will require public agencies with commercial possessory interests to furnish us with copies of their leases for the 1997 roll.
5. **Send questionnaires requesting information about compatible uses on TPZ properties**  
Santa Cruz County is an urban county with relatively little land zoned TPZ. Unlike many northern and Sierra counties, there is no hunting and very little grazing, even on non-TPZ land.
6. **Streamline the processing of business property statements by : (1) using the Board-prescribed property statement for apartments; (2) purging old data from business property files; and (3) revising the Assessor's form ASR223A**  
From prior usage of 571R, we have learned that direct billing is appropriate for small apartment houses and larger apartment houses receive regular business property statements. Upon sale of any of these units, an on site inspection occurs. Selective purging of files routinely occurs. Section 465 does not require purging. As we annually work business property statements we remove some papers from files, so that in total, we remove bulk and retain our ability to have adequate file shelving. The half sheet ASR223A works fine, takes up little space and we will continue to use it.
7. **Enhance the direct billing program by sending business property statements to direct billing accounts every fourth year**  
We disagree with this suggestion. These properties tend to remain static for long periods of time and cyclical billings would increase our expenses with little in return.
8. **Revise the form for requesting reassessment of property damaged by calamity or misfortune**  
This form has already been revised to include the appropriate language.
9. **Expand methods of discovering disaster relief**  
We will not commit our limited staff time to implement this suggestion. We do review the local papers, looking for reports of disasters.