



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0073
916-327-4975 • FAX 916-324-2586
www.boe.ca.gov

BOARD OF SUPERVISORS

2011 JUN 16 A 10:19

BETTY T. YEE
First District, San Francisco

SEN. GEORGE RUNNER (RET.)
Second District, Lancaster

MICHELLE STEEL
Third District, Rolling Hills Estates

JEROME E. HORTON
Fourth District, Los Angeles

JOHN CHIANG
State Controller

KRISTINE CAZADD
Interim Executive Director

June 14, 2011

Supervisor Dick Monteith, Chairman
County of Stanislaus Board of Supervisors
1010 10th St, Suite 6500
Modesto, CA 95354

Dear Mr. Monteith:

In fulfillment of the requirements of section 15646 of the Government Code, the State Board of Equalization sends herewith a copy of the Stanislaus County Assessment Practices Survey Report. The Board prepared the survey under the provisions of sections 15640-15646 of this code. These code sections provide that the State Board of Equalization shall make surveys in each county to determine the adequacy of the practices and procedures used by the county assessor in valuation of properties and related duties.

This report contains recommendations for improving the efficiency and effectiveness of the Stanislaus County Assessor's Office. We have not attempted to reflect legislation enacted since our fieldwork, nor have we endeavored to reflect any changes subsequently initiated by the assessor.

Section 15646 requires that the report be sent to specified state and local government officials, and the report is made available to other interested parties for their information upon request.

Sincerely,

Kristine Cazadd
Interim Executive Director

KC:ps
Enclosure

cc: Sen. George Runner (Ret.)

STANISLAUS COUNTY ASSESSMENT PRACTICES SURVEY

JUNE 2011

CALIFORNIA STATE BOARD OF EQUALIZATION

BETTY T. YEE, SAN FRANCISCO

FIRST DISTRICT

SENATOR GEORGE RUNNER (RET.), LANCASTER

SECOND DISTRICT

MICHELLE STEEL, ROLLING HILLS ESTATES

THIRD DISTRICT

JEROME E. HORTON, LOS ANGELES

FOURTH DISTRICT

JOHN CHIANG

STATE CONTROLLER

KRISTINE CAZADD, INTERIM EXECUTIVE DIRECTOR





STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
916 274-3350 • FAX 916 285-0134
www.boe.ca.gov

BETTY T. YEE
First District, San Francisco

SEN. GEORGE RUNNER (RET.)
Second District, Lancaster

MICHELLE STEEL
Third District, Rolling Hills Estates

JEROME E. HORTON
Fourth District, Los Angeles

JOHN CHIANG
State Controller

June 14, 2011

TO COUNTY ASSESSORS:

KRISTINE CAZADD
Interim Executive Director

No. 2011/020

STANISLAUS COUNTY
ASSESSMENT PRACTICES SURVEY

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

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from July through August 2009. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The retired assessor, Mr. Doug Harms, and the current assessor, Mr. Cogdill, and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

TABLE OF CONTENTS

INTRODUCTION.....	1
SCOPE OF ASSESSMENT PRACTICES SURVEYS	2
EXECUTIVE SUMMARY	3
OVERVIEW OF STANISLAUS COUNTY.....	5
ADMINISTRATION	6
BUDGET AND STAFFING	6
APPRAISER CERTIFICATION	6
STAFF PROPERTY PROCEDURES.....	7
ASSESSMENT APPEALS.....	7
DISASTER RELIEF.....	10
EXEMPTIONS	11
ASSESSMENT FORMS.....	14
ASSESSMENT OF REAL PROPERTY	16
CHANGE IN OWNERSHIP.....	16
NEW CONSTRUCTION	23
DECLINES IN VALUE.....	26
CALIFORNIA LAND CONSERVATION ACT PROPERTY	27
TAXABLE POSSESSORY INTERESTS.....	29
LEASEHOLD IMPROVEMENTS.....	30
MINERAL PROPERTY	31
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....	33
AUDIT PROGRAM	33
BUSINESS PROPERTY STATEMENT PROGRAM.....	35
BUSINESS EQUIPMENT VALUATION	37
MANUFACTURED HOMES	38
APPENDIXES	40
A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP.....	40
B. RELEVANT STATUTES AND REGULATIONS	41
ASSESSOR'S RESPONSE TO BOE'S FINDINGS	47

INTRODUCTION

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Stanislaus County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable David Cogdill, Stanislaus County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.²

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

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

EXECUTIVE SUMMARY

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

The assessor has improved his operations by embracing new technology. Following are a few examples of new technology implemented by the assessor.

- Electronically import recorded documents into a document management system and link the *Preliminary Change of Ownership Report (PCOR)* to the recorded document.
- Automatically value properties using the Direct Enrollment program when they meet defined criteria.
- Effectively use the Access/Direct Enrollment to determine decline-in-value assessments. Due to weakness in the residential market, this program has been extensively utilized in recent years.

In the area of administration, the assessor is effectively managing programs involving budgeting and staffing, appraiser certification, staff property procedures, disaster relief, exemptions, and assessment forms. However, we note an area for improvement in the assessment appeals program.

In the area of real property assessments, the assessor has effective programs for declines in value, California Land Conservation Act (CLCA) property, and leasehold improvements. We noted areas for improvement in the processing of changes in ownership and new construction, as well as the assessment of taxable possessory interests and mineral properties.

In the area of personal property and fixtures, we note that the assessor has an excellent audit program and no problems in the valuation of business equipment. We identified areas for improvement in processing business property statements and the assessment of manufactured homes.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

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

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

- RECOMMENDATION 1:** Allow the clerk of the board to complete administrative duties as required in the assessment appeals process.....10

RECOMMENDATION 2: Submit quarterly reports to the BOE listing approved section 69.5 base year value transfers.....22

RECOMMENDATION 3: Improve the new construction assessment program by:
(1) enrolling construction in progress at its full market value on each lien date pursuant to section 71, and
(2) obtaining building permits from all permit issuing agencies.....25

RECOMMENDATION 4: Improve the taxable possessory interest program by:
(1) obtaining lease agreements for all newly created taxable possessory interests, and (2) using appropriate capitalization rates.30

RECOMMENDATION 5: Measure declines in value using the entire appraisal unit as required by Rule 469(e)(2)(C).32

RECOMMENDATION 6: Improve the business property statement program by:
(1) accepting only properly completed business property statements, and (2) properly referencing the correct code sections when estimating and enrolling non-filed requested business property statements.....36

RECOMMENDATION 7: Improve the manufactured home program by: (1) taking into consideration the sale price of a new manufactured home as an indicator of fair market value, and (2) excluding site value from assessments of re-sold manufactured homes upon a change in ownership.38

OVERVIEW OF STANISLAUS COUNTY

Stanislaus County lies in the San Joaquin Valley. The county is part of California's fertile Central Valley, which stretches about 300 miles through the center of the state. Modesto, the county seat, is located about 80 miles south of Sacramento. Stanislaus County is bordered by Calaveras and San Joaquin counties on the north, Tuolumne County on the east, Merced County on the south, and Santa Clara County on the west.

Stanislaus County was established in 1854, just five years after gold was discovered at Sutters Mill near Sacramento. With a population of over 560,000, the county encompasses nearly 1,500 square miles, and includes nine cities and several unincorporated communities.

The following table displays information pertinent to the 2009-10 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$10,862,039,999
	Improvements	\$24,923,538,337
	Personal Property	\$928,136,131
	Total Secured	\$36,713,714,467
Unsecured Roll	Land	\$20,119,561
	Improvements	\$840,347,756
	Personal Property	\$1,114,139,774
	Total Unsecured	\$1,974,607,091
Exemptions³		(\$1,808,453,455)
	Total Assessment Roll	\$36,879,868,103

The next table illustrates the growth in assessed values over recent years:⁴

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2009-10	\$36,879,868,000	-7.8%	-2.4%
2008-09	\$40,016,875,000	-6.9%	4.7%
2007-08	\$42,968,670,000	9.8%	9.6%
2006-07	\$39,125,853,000	17.0%	12.3%
2005-06	\$33,445,006,000	14.8%	11.1%

³ The value of homeowner's exemptions is excluded from the exemptions total.

⁴ State Board of Equalization Annual Report, Table 7

ADMINISTRATION

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

Budget and Staffing

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

As shown in the following table, the assessor's budget has increased by approximately 40 percent over recent years:

BUDGET YEAR	GROSS BUDGET	ANNUAL CHANGE	PERMANENT STAFF
2008-09	\$5,873,041	-0.6 %	63
2007-08	\$5,907,532	6.6 %	65
2006-07	\$5,540,587	21.5 %	65
2005-06	\$4,560,331	8.0 %	64
2004-05	\$4,223,370	NA	64

The assessor has a staff of 63 full-time employees. Staffing has remained relatively constant over recent years, with minor changes due to retirements and promotions.

At the time of our survey field work, staff consisted of the assessor, 2 assistant assessors, 3 supervising appraisers, 1 supervising auditor-appraiser, 1 supervising standards appraiser, 6 senior appraisers, 2 senior auditor-appraisers, 17 appraisers, 5 auditor-appraisers, 2 appraiser technicians, 1 drafting supervisor, 3 drafting technicians, 3 assessment technician supervisors, 2 computer analysts, 9 account clerks, 3 administrative clerks, and 2 confidential assistants.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 38 certified appraisers on staff, including the assessor; 25 hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates.

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

The standards supervisor oversees the training and certification program for appraisers and tracks individual appraisal education continuously, along with the BOE's annual reports. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible; however, Stanislaus County does not provide any financial incentive to obtain an advanced certificate.

Stanislaus County is conscientious about ensuring their certified appraisers meet the continuing education requirements. No appraisers in Stanislaus County were deficient in training hours as of June 30, 2009.

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties. This review is conducted to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest.

The assessor becomes aware of staff-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the certified staff's annual filing of the California Fair Political Practices Commission Form 700, *Statement of Economic Interests*.

Form 700 requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity. The information provided includes the type of interest (e.g., stocks, rental property, business entities, or gifts from non-family members) and the percentage of ownership.

When an appraisal for either a change in ownership or completed new construction is required on a staff-owned property or business, the assignment is given to an appraiser or auditor-appraiser other than the owner of the property or business. When the appraisal is completed, a senior appraiser will review and approve the appraisal before it is enrolled.

We reviewed a number of staff-owned properties and found no problems with their assessments.

Assessment Appeals

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

Stanislaus County Ordinance CS 26 provides for the creation of the county's assessment appeals board (AAB). The AAB consists of three members and two alternates, all of whom are appointed

by the board of supervisors. The county does not have hearing officers. Pursuant to section 1624.02, all members complete the required training when appointed to the AAB.

The regular filing period for appeals in Stanislaus County is July 2 through November 30. Pursuant to section 1605(c), the Board of Supervisors adopted resolution 2007-493 effective July 1, 2007. This resolution provides the filing deadline for an application for reduction in assessment made outside the regular assessment period to be no later than 60 days after the date of mailing printed on the tax bill or the postmark, whichever is later.

The following table sets forth the assessment appeals workload in recent years.

ASSESSMENT ROLL	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	691	1,540	302	126	180
Appeals Carried Over From Prior Year	1,466	266	77	143	103
Total Appeals Workload	2,157	1,806	379	269	283
Resolution:					
Withdrawn	475	186	63	126	80
Stipulation	1,125	123	36	28	45
Appeals Reduced	0	4	0	4	1
Appeals Upheld	9	1	2	3	14
Appeals Increased	0	0	0	0	0
Other Determination*	43	26	12	31	10
Total Resolved	1,652	340	113	192	150
To Be Carried Over**	505	1,466	266	77	133
* Note: Includes, but not limited to, late-filed appeals, applicants' failure to appear and board denied applications.					
**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.					

Stanislaus County typically conducts appeals hearings once a month. Due to the declining market over the past few years, Stanislaus County has seen an increase in the number of appeals, with the majority involving valuation issues of residential properties within subdivisions.

The Stanislaus County Clerk of the Board of Supervisors is responsible for providing applications for changed assessments to the public. As of July 2, 2008, a non-refundable processing fee of \$30.00 was required for each submitted application. The application is available at either the office of the clerk of the board or through its website. Websites for the clerk of the board and the assessor provide guidance and detailed information to the public regarding the assessment appeals process.

When the clerk of the board receives an application, they stamp it with the date and time, and send a copy to the assessor. A confidential assistant (CA) in the assessor's office reviews the

application for completeness and timeliness, and then updates the information in the appeals database for monitoring. If all the information provided is correct, and the application is filed timely, the CA sends the application back to the clerk of the board, who mails the applicant an acknowledgement letter. For commercial, business, and farm appeals, once the acknowledgement letter is sent, the assessor mails the applicant a formal request for information. This request indicates the roll value and details the appeals process. About one week after the Notice of Hearing letter is mailed by the clerk of the board, the assessor will send a second letter to remind the applicant to send requested property information. A third letter, if needed, is sent ten days before the stipulation deadline as a last attempt to gather information before the appeal goes to hearing.

The CA determines if the appeal involves commercial or residential property and prints a report from the database. A supervisor then assigns an appraiser to the appeal; however, only Appraiser IIIs and Auditor-Appraiser IIIs and above may prepare and present appeals. If an appeal is in an area assigned to a less advanced staff person, that individual may only participate in the valuation discussion as a learning experience. To coordinate the assigned staff at the hearing, the assessor's office schedules hearing dates for appeals. The supervisor then notifies the CA when the hearing should be scheduled. The CA enters the hearing information into the database to notify the clerk of the board. The assessor or assistant assessor, supervisor, CA, and assigned appraiser or auditor-appraiser typically attend each hearing.

Once an appeal is filed, the assigned appraiser or auditor-appraiser attempts to contact the applicant in an effort to resolve the issue prior to the scheduling of a hearing. If an agreement is obtained, the applicant may withdraw the appeal or stipulate to a new value. If an applicant decides to withdraw the appeal, two withdrawal forms are prepared and sent to the applicant to sign and return. One copy goes to the clerk of the board and one is kept in the assessor's file. The clerk of the board processes withdrawals and lists each withdrawal on the calendar of the next AAB hearing for reference only. If the appraiser and applicant agree to a new value, a stipulation and cover letter are prepared outlining the details of the assessment changes. The stipulation is reviewed by the assistant assessor and three copies are mailed to the applicant to sign and return. Stipulations are placed on the calendar to be reviewed and approved by the AAB. Once approved, one copy of the stipulation is provided to the clerk of the board, one copy is kept in the assessor's file, and one copy is mailed to the applicant. If an agreement cannot be reached or involves complex assessment issues, the appeals process continues and a hearing takes place.

During our survey, we were able to attend an AAB hearing; however, no appeals were presented to the AAB. We were able to obtain copies of prior appeals packets prepared by the assessor's office and found them to be well organized. We also found the assessor to be in compliance with Rule 305.3(d) for no-change audits, correctly sending the property owner a letter outlining the appeals process. Over the last five years, all appeals were resolved within the two-year time period. However, we identified an area of concern regarding the assessor's assessment appeals program.

RECOMMENDATION 1: Allow the clerk of the board to complete administrative duties as required in the assessment appeals process.

Applications for assessment appeals are received by the clerk of the board, date stamped, and a copy provided to the assessor. The assessor reviews the application for timeliness and completeness, and sets the hearing date for the appeal.

Pursuant to Rule 305, the clerk of the board should ensure applications meet the requirements for completeness and timeliness. Also, section 1605.6 states in part, "After the filing of an application for reduction of an assessment, the clerk of the county board of equalization shall set the matter for hearing and notify the applicant of the time and date of the hearing." The BOE's *Assessment Appeals Manual* provides that two of the board clerk's administrative duties include: (1) ensuring that applications meet the requirements of Rule 305 for completeness and timeliness and are on the Board-prescribed form, and (2) schedule hearings before hearing officers or appeals boards.

According to the BOE's *Assessment Appeals Manual*, the assessment appeals board is an independent entity, whose function is to resolve value disputes between taxpayers and the assessor. Therefore, it is inappropriate for the assessor to perform the functions of the clerk of the board by reviewing applications for timeliness and completeness, and scheduling hearing dates before the AAB. This procedure could give an appearance that the assessor is intervening in the independent third-party review to which every appellant has the right.

It may be a conflict of interest if the assessor, not the clerk of the board, completes many of the administrative functions of the appeals process.

Disaster Relief

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

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

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by

\$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Stanislaus County Board of Supervisors first adopted a disaster relief ordinance in April 1995. That ordinance, C.S. 589, was subsequently updated with C.S. 658 in January 1998, and C.S. 1014 in October 2007.

The assessor discovers calamities through a review of fire incident reports within the county, newspaper articles, building permits, field canvassing, and claim forms submitted by taxpayers. Each appraiser is responsible for claims within his or her geographic area. The appraisal staff maintains detailed records on all parcels affected by disaster relief, including appraisal notes and photographs.

Several parcels affected by disaster relief were reviewed during the survey. We found the assessor correctly prorates disaster relief assessments and separately determines the full cash value of land, improvements, and personal property before and after the calamity. No deficiencies were found during the review of the assessor's administration of disaster relief.

Exemptions

Church and Religious Exemptions

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

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

The assessor processed 427 religious exemption claims and 60 church exemption claims for the 2009-10 assessment roll. The following table illustrates religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2009-10	427	\$343,068,370	60	\$9,030,805
2008-09	422	\$306,705,623	41	\$8,875,066
2007-08	415	\$279,201,317	41	\$7,126,254
2006-07	410	\$255,354,083	47	\$15,340,856
2005-06	399	\$239,384,934	45	\$14,797,757

In Stanislaus County, the exemption staff consists of a supervisor and an account clerk that administer all institutional exemptions within the county. They use internally developed procedures, along with resources provided by the BOE, in their review of exemption claims.

Several church and religious exemption claims were reviewed during our survey. We found the county correctly administers both the church and religious exemptions.

Welfare Exemption

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

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which has a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

The assessor processed 431 welfare exemption claims for the 2009-10 assessment roll. The following table sets forth welfare exemption data for recent years:

ROLL YEAR	WELFARE EXEMPTION	EXEMPTED VALUE
2009-10	431	\$1,380,262,383
2008-09	421	\$1,305,836,039
2007-08	413	\$1,145,270,923
2006-07	411	\$894,771,422
2005-06	429	\$577,617,333

We reviewed a variety of welfare exemption claims, including those of low-income housing, hospital, religious, and charitable organizations. We found the assessor correctly applies provisions for untimely filed claims, requires all new claimants to submit a copy of their OCC, and promptly performs site inspections on any new applicants. The assessor effectively administers the welfare exemption.

Homeowners' and Disabled Veterans' Exemptions

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

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

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible.

The assessor processed 80,135 homeowners' exemptions and 546 disabled veterans' exemptions for the 2009-10 assessment roll.

The following table sets forth homeowners' and disabled veterans' exemptions data for recent years:

ROLL YEAR	HOMEOWNERS' EXEMPTIONS	EXEMPTED VALUE	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2009-10	80,135	\$560,275,692	546	\$53,714,706
2008-09	81,095	\$566,322,569	518	\$52,305,845
2007-08	80,623	\$563,160,797	504	\$49,345,141
2006-07	80,241	\$560,925,613	544	\$44,700,508
2005-06	80,847	\$564,948,474	499	\$40,695,391

The assessor closely administers the homeowners' exemption and the disabled veterans' exemption. During our survey, we reviewed several disabled veterans' claims. Each claimant returned proof of honorable discharge and service-related disability. Furthermore, the county correctly determined what amount of exemption the claimant received and properly applied the provisions for untimely filed claims.

We found the assessor properly administers both the homeowners' exemption and disabled veterans' exemption.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.⁵ Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for Board-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file such form or questionnaire.

To enforce the use of prescribed forms, the BOE requires assessors to specify in writing each year the forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

Review of the forms used by the Stanislaus County Assessor's Office for the year 2009 revealed the following:

- The assessor used 64 Board-prescribed forms.
- Of the 64 forms used, the assessor rearranged eight.

⁵ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

- The assessor has timely provided the BOE with copies of rearranged forms, final prints, and forms checklists.

We have no recommendations for this program.

ASSESSMENT OF REAL PROPERTY

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

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

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

Change in Ownership

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

Document Processing

Stanislaus County maintains detailed policies and procedures for staff in processing changes in ownership. Increases in foreclosures and resales are reflected in the fluctuation of numbers over the past few years. The following table indicates the total number of transfer documents received and the total number of reappraisable events in Stanislaus County in recent years:

ROLL YEAR	TRANSFER DOCUMENTS RECEIVED	REAPPRAISABLE EVENTS
2008-09	34,678	20,212
2007-08	28,183	11,105
2006-07	34,444	12,525
2005-06	44,411	18,238

The assessor's primary source of discovering properties that have changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires

BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), accompany documents submitted for recordation for the transfer of ownership of real property. PCORs are available at both the assessor's and recorder's offices, as well as the county's website. Local ordinance requires the assessor's parcel number on all deeds.

The recorder electronically scans all documents into a computer system, but does not review documents sent to the assessor. The assessor imports the electronic documents into a document management system based on a set of parameters relating to the functions of the assessor's office. PCORs are sent from the recorder to the assessor via interoffice mail. Once the PCOR is received by the assessor, it is scanned into the document management system and linked to the recorded document.

Account clerks review recorded documents and PCORs. Documents requiring verification of legal description or an assessor's parcel number are routed to the mapping department. All other documents and PCORs are assigned to the account clerks to determine whether the transfer is reappraisable and, if so, what percentage. Data from scanned images of the recorded document and PCOR is posted to the assessor's computer system. This creates in the system a transfer event, which is then assigned to an appraiser for valuation.

To streamline the transfer process, the assessor created workflow efficiencies for processing reappraisable transfers. The 2003-04 roll year was used as the benchmark year for comparisons and improvement measurements. Efficiencies were measured office wide, in the title transfer department, and in the residential property section. For each roll year after 2003-04, the total number of reappraisable deeds (workload) and the average amount of days it takes to process an event (processing time) were measured against the workload and processing time for the benchmark year. Internal and external solutions were documented to indicate why numbers increased or decreased in comparison to the benchmark year.

Office wide, the assessor was able to decrease processing time from 225.65 days in the benchmark year to 211.43 days for 2008-09 roll year. In the title transfer department, the assessor was able to decrease processing time from 170.39 days in the benchmark year to 99.94 days for 2008-09 roll year, while the workload increased 39.4 percent from the benchmark year. The decline in processing time was due to a restructuring of the title transfer department and sharing duties with the appraisal and business support departments. These changes also resulted in increased staffing flexibility and cross-training opportunities.

However, in the residential property section, processing time increased from 52.23 days in the benchmark year to 109.1 days in the 2008-09 roll year, even though the workload decreased 47.9 percent from the benchmark year. This increase in processing time can be attributed to several factors. First, though the residential property section continued to utilize the direct enrollment program, the effectiveness was negatively impacted due to the steep decline in market values throughout the year. Other negative impacts included additional time spent manually valuing transfers and foreclosures, time spent on 128,237 decline-in-value reviews compared to

only 42,894 for the 2007-08 roll year, and time devoted to training two new appraisers and one appraiser technician.

We examined several recorded documents and found the assessor conducts a proper and thorough review for reappraisable events.

Penalties

If a PCOR is not filed with the recorded document in Stanislaus County, the account clerk processing the transfer mails the property owner a copy of BOE-502-AH, *Change of Ownership Statement* (COS), to obtain transfer information. Property owners are typically sent one COS and have 45 days to respond. If after 45 days there has been no response, the property is reappraised using the documentary transfer tax, cost approach, or market approach. Once a new value has been placed on the property, a penalty is applied.

The assessor's information technology department computes applicable penalties and places each parcel with a penalty on a list. For efficiency, once a year the assessor sends the auditor the list of all properties to which a penalty is applicable. The list is given to the auditor by August 15 in order that the penalties may be collected with the following year's taxes.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. Computers are available in the lobby for the public to access transfer information. The list is updated close to the 30th day of each calendar quarter. It is divided into geographical areas and includes the names of the transferee, the assessor's parcel number (APN), the situs address of the property (if available), the date of recording, the document number, and the documentary transfer tax (if available). The assessor's two-year transfer list is in full compliance with the provisions of section 408.1.

We have no recommendation for this program.

Section 64 provides certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and any entities under its ownership control (namely, subsidiaries.) Rule 462.180 interprets statutes that pertain to transfers involving legal entities that constitute a change in control or ownership and applicable exclusions. The BOE's LEOP program gathers and disseminates information to county assessors regarding changes in control and ownership of legal entities that hold real property in California.⁶ The purpose of the program is to assist assessors in discovering transfers that may not have been captured by a county's own discovery systems because, ordinarily, transfers of interests in legal entities do not involve a recorded document.

⁶ Property held includes property owned, leased from a government entity for any term, and leased from a private party under a long-term lease with a remaining term of 35 years or more.

Section 480.1 and 480.2 require legal entities to file a change in ownership statement with the BOE when there is a change in control under section 64(c) or a change in ownership under section 64(d). The BOE's LEOP unit reviews BOE-100-Bs, *Statement of Change in Control and Ownership of Legal Entity*, filed by legal entities to determine if a legal entity has undergone a change in control or change in ownership. BOE transmits monthly reports and pertinent documents to each assessor that identifies entities having a change in control or ownership and the properties of the acquired entities. Assessors should reassess the properties of the acquired entity and apply applicable late-filing penalties. Assessors are responsible for verifying ownership of the property reported on the entity's BOE-100-B property schedule to ensure all affected parcels will be reassessed.

Monthly reports received from the BOE are delivered to the assessor's standards supervisor for processing. The standards supervisor reviews the reports to confirm if any companies held property within Stanislaus County. For changes in control, the standards supervisor ensures all of the entity's real property, unless excluded, is reassessed by using a search feature in the computer system to identify all properties with the same ownership. The assessor also discovers potential changes in control of legal entities from newspaper articles, business property statements, taxpayer reporting, and appraiser and auditor canvassing. Once a transfer has been determined to be a reappraisable event and all properties involved in the transfer have been identified, notification is sent to the account clerks who create a transfer event to assign to an appraiser or auditor for valuation.

If the county discovers a change in control or ownership not listed on LEOP reports, the county notifies the BOE's LEOP section using BOE-100-BR, *County Assessor Legal Entity Transfer Referral*. Our review of several records confirms the county does a thorough job in reviewing BOE LEOP reports and reassessing all property interests identified on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first \$1 million of other real property between parents and children. Certain transfers between grandparents and grandchildren are also excluded.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. Even if an assessor opts not to report quarterly to the BOE, however, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have been granted the exclusion for property over their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding exclusions are available to the public at the assessor's office or through the assessor's website. The following table represents section 63.1 claims granted in Stanislaus County in recent years:

Roll Year	Section 63.1 Claims Granted
2008-09	892
2007-08	1,416
2006-07	1,668
2005-06	1,448
2004-05	1,872

Account clerks review all section 63.1 applications and determine if the exclusion will be accepted or denied. If a claim is denied, the property owner is notified by letter or telephone.

If a PCOR or COS indicates a transfer may be eligible for exclusion under section 63.1 and a claim form was not submitted with the PCOR or COS, the account clerk handling the transfer will typically send the taxpayer a claim form and cover letter advising of the possible exclusion. Each account clerk maintains their own tracking system for the claim forms they mail to taxpayers. Copies of the claim, as well as any corresponding transfer information, are kept in a folder at each account clerk's desk. After 30 days, if a claim form is still in the folder and has had no response, the account clerk may follow up with a telephone call to the taxpayer. Typically, however, the property is assigned to an appraiser for reassessment.

When the county receives the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if the value of property transferred in Stanislaus County has exceeded the limit. If multiple properties transfer close in time, the county allows the property owner or representative to determine which property or properties to exclude and which to reassess. If properties are in multiple counties, the assessor will contact the other counties to coordinate handling of the excess.

As of the first quarter of 2008, Stanislaus County submitted the quarterly report to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. However, due to the lack of reporting in previous quarters, the assessor is aware of the possibility some taxpayers may have been granted section 63.1 exclusions erroneously and will make every effort to identify such properties and correct them.

Pursuant to section 63.1(i), the county stores all claim forms in a locked cabinet to protect claimant confidentiality.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons age 55 or older or who are severely and permanently disabled to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

The following table lists the number of section 69.5 claims granted in Stanislaus County in recent years.

Roll Year	Section 69.5 Claims Granted
2008-09	23
2007-08	68
2006-07	104
2005-06	94
2004-05	96

Declining numbers over the past few years may be a result of the declining market. Claimants may not be applying for section 69.5 exclusions, as values of replacement properties may be less than values of the original properties.

Stanislaus County does not accept base year value transfers from other counties. Applications and information regarding exclusions are available to the public at the assessor's office or through its website. If a PCOR or COS indicates a transfer may qualify for relief under section 69.5, the county sends a claim form and letter explaining the exclusion.

Appraisers or supervisors typically determine whether a section 69.5 base year value transfer will be accepted or denied. The assistant assessor makes decisions on claims that are more complex. Appraisers determine the fair market value of both the replacement and original properties, and apply the appropriate value comparison percentage based on the date the replacement property was purchased or construction was completed. If a claim is denied, property owners are typically contacted by telephone.

Pursuant to section 69.5(n), claim forms are stored in a locked cabinet to protect claimant confidentiality. We found that Stanislaus County does not submit to the BOE the required quarterly reports that list approved section 69.5 exclusions. Therefore, we are making the following recommendation:

RECOMMENDATION 2: Submit quarterly reports to the BOE listing approved section 69.5 base year value transfers.

The assessor has not submitted to the BOE a quarterly report listing approved section 69.5 base year value transfers since the 3rd quarter of 1993.

Section 69.5(b)(7) requires county assessors to submit to the BOE quarterly reports listing approved section 69.5 base year value transfers.

Failure to provide information to the BOE involving base year value transfer claims under section 69.5 could result in the duplication of the exclusion, resulting in underassessments in the county that failed to report or in other counties, or both.

Valuation

Once a change in ownership has been determined to be a reappraisable event, an appraiser is assigned for valuation. Every reappraisable transfer is reviewed to confirm that the listed sale price accurately reflects market value. The sale price is not automatically enrolled. Typically, residential changes in ownership are valued using the market approach, while commercial changes in ownership are valued using the income approach. The assessor maintains residential and commercial sales databases to assist appraisers with valuations. To obtain information for the commercial database, a sales questionnaire is sent to a property owner when a change in ownership occurs, a rent questionnaire is sent to the tenant when the assessor receives a business permit, and an addendum is periodically sent to a property owner requesting income and expense information, as well as rent roll information. Market value conclusions for both residential and commercial properties are documented in the appraisal file.

Due to staffing and budget constraints, the assessor no longer conducts field inspections of all transferred properties. A field inspection of a property is conducted only if the sale price falls outside of an acceptable range, the transfer did not have a reported sale price, or if the property is unique.

The BOE commends the assessor for creating and maintaining tools to assist in the valuation process and for thorough file documentation.

Direct Enrollment Program

Direct enrollment allows the assessor to process automatically the assessment of properties meeting certain criteria. The assessor has created an efficient direct enrollment program. With the help of a county programmer, the assessor's Information Technology Department developed the direct enrollment web-based program for residential properties.

The following table presents the number of direct enrollments processed, the percentage of reappraisable transfers that are direct enrollments, and the percentage of the total roll value that are direct enrollments in recent years:

ROLL YEAR	NUMBER OF DIRECT ENROLLMENTS	PERCENTAGE OF REAPPRAISABLE TRANSFERS	PERCENTAGE OF ROLL VALUE
2008-09	1,718	8.4%	9.4%
2007-08	1,937	17.4%	20.5%
2006-07	4,074	32.5%	39.3%
2005-06	6,335	34.7%	40.5%
2004-05	3,415	N/A	23.2%

Numerous foreclosures in the county resulted in lower total numbers of direct enrollments for 2007-08 and 2008-09 roll years.

Once a week, sales meeting certain criteria are imported into the direct enrollment program. Each sale runs through a variety of parameters, including several parameters within each neighborhood code. The parameters can easily be adjusted based on market conditions for a particular neighborhood. Land and improvement values are determined based on the neighborhood. Sale prices rejected by the direct enrollment program are manually reviewed by an appraiser and either resubmitted through the direct enrollment program or manually enrolled. Comparable sales are maintained in the direct enrollment database and are available to appraisers in the manual assessment of residential properties and the review of properties in decline-in-value status.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements (e.g., sewers, sidewalks, lighting, and water lines) that generally enhance the value of privately owned real property. Land directly benefiting from such improvements is pledged as security for repayment of a construction loan.

Stanislaus County has a small number of parcels affected by improvement bonds. In accordance with section 163, entities receiving revenue derived from payments created by an improvement bond shall annually notify the assessor of required statistics. The county does not maintain a bond study or perform a regression analysis. Upon a change in ownership, each transfer is reviewed separately and the bond amount is presumed to be included in the purchase price unless market conditions prove otherwise.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different

use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

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

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

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from eleven permit-issuing agencies: the Stanislaus County Building Department; the cities of Modesto, Turlock, Oakdale, Patterson, Ceres, Newman, Riverbank, Waterford, and Hughson; and the State Department of Housing and Community Development (HCD). Other methods used to discover new construction include newspaper articles, business journals, business property statements, television interviews, reviews of properties listed for sale, and field canvassing.

The following table exhibits the number of new construction permits processed, as well as those leading to new assessments during recent years:

ROLL YEAR	PERMITS RECEIVED	NEW ASSESSMENTS FROM PERMITS
2008-09	9,947	3,431
2007-08	13,354	5,201
2006-07	16,857	7,547
2005-06	18,808	8,152
2004-05	16,743	6,641

Permit Processing

The assessor has written procedures, policies, and forms pertaining to new construction. Permits received by the assessor's office are posted by the appraisal support staff and entered into the inventory control module of the computer system. Permits are tracked and distributed to the appraisers from this module. The appraisers determine whether the work authorized by each permit is assessable as new construction.

Valuation

The assessor estimates the full value of new construction as of the date of completion. The completion status of new construction is determined from direct contact with the building department, new construction questionnaire data, recorded dates of occupancy, or from onsite inspections. The cost data sources most utilized for residential, commercial, and industrial properties include the owner's reported cost and the published cost guide *Marshall Valuation Services*. The income and sales comparison approaches to value are also sometimes used to determine new construction value. It is the assessor's practice to perform field inspections of all newly-constructed homes. Supplemental assessments are created and issued based on the date of completion for new construction. Most appraisal updates, including documentation and valuation, are posted to the assessor's mainframe computer system. Historical value summaries, real property building records, and other relevant property data are scanned into the computer system. Currently, there are roughly five years of historical documents available on the computer system. These documents include returned questionnaires, market analyses, cost analyses, and other data applicable to new construction activities.

Construction in Progress (CIP)

Section 71 requires the assessor to enroll construction in progress at its fair market value on each lien date. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value assigned. An appraiser determines the completion status of new construction from either an on-site review, a notice of completion from the building department, or information provided by the property owner. The assessor is correctly valuing new construction upon completion by determining the market value through the use of reported costs, published costs, and market analyses.

The assessor has a good program for processing and valuing completed new construction; however, the procedures for valuing construction in progress should be augmented to comply with current statutes.

RECOMMENDATION 3: Improve the new construction assessment program by:
(1) enrolling construction in progress at its full market value on each lien date pursuant to section 71, and
(2) obtaining building permits from all permit issuing agencies.

Enroll construction in progress at its full market value on each lien date pursuant to section 71.

We found the assessor does not establish the fair market value of construction in progress on each lien date. Instead, the assessor first estimates the percentage of completion of the project and then multiplies that percentage by the value reported on the permit. In addition to using permit value as a valuation tool, the assessor implements minimum completion thresholds for the valuation of construction in progress and does not enroll the value unless the project is above that minimum completion threshold.

Section 71 requires that the enrolled value of construction in progress shall be its fair market value as of the lien date. The value reported on permits is based on published cost factors derived from a building journal and only reflects average costs throughout various regions in California; the values are not representative of construction costs in Stanislaus County. Moreover, these estimates cannot account for variations in construction costs resulting from differences in square footage, construction quality, or the complexity of proposed projects. Thus, the values reported on the permits are not likely to reflect fair market value. In order to arrive at an accurate indicator of value for construction in progress, the assessor must determine its fair market value using the cost, market, and/or income approaches. In addition to the sources already used, the assessor could use the Assessors' Handbook Section 531, *Residential Building Costs*, and local cost data. Additionally, the market and income approaches to value may also be utilized in determining the value of new construction.

The assessor's current practices in relation to construction in progress are not in compliance with section 71 and likely result in inaccurate assessments.

Obtain building permits from all permit issuing agencies.

The assessor does not receive permits for wells from the Environmental Resources Department. When a permit is issued by the building department for a structure, the building department notifies the assessor when a well permit has also been issued for the property by the Environmental Resources Department. However, for all other well permits issued, the assessor is not notified. Section 72(a) requires that all permits issued from a city or county or both shall be transmitted to the county assessor. Not obtaining permits for wells from the Environmental Resources Department may cause the assessor to have escaped assessments.

Declines in Value

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

Discovery of value declines in commercial, industrial, residential, and agricultural properties is accomplished through several means. The assessor keeps watch of overall market conditions and relies on appraisers' familiarity with their assigned geographic areas and specialties. In addition, taxpayer requests for review and assessment appeals trigger reviews for value declines in properties surrounding the subject property.

Since the prior survey, the assessor has developed a new tool to annually value all residential properties in decline-in-value status. The Access/Direct Enrollment Program is an automated system developed in-house with the help of the county's Management Information Systems Department. This program generates a list of comparable sales for a given subject property. Comparable properties are determined by a coding system based on geographical area, use code, size and shape of the lot, age, improvement characteristics, and date of sale.

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor to the prior year's taxable value and to ensure that the record will be analyzed in the coming year. The system accesses a large database that is continually updated. The in-house database, developed in 2003 for commercial, agricultural, and multi-family properties, also allows the system to generate a list of comparable rents and capitalization rates.

The local real estate market in Stanislaus County has become extremely weak and the number of properties with market values lower than their FBV has increased dramatically over the last two years.

The following table sets forth the number of decline-in-value properties for the last five years:

ROLL YEAR	DECLINES-IN-VALUE PROPERTIES
2008-09	74,598
2007-08	41,936
2006-07	1,699
2005-06	2,000
2004-05	2,566

In reviewing a number of decline-in-value assessments, we found that the records were well documented and the values well supported. The assessor's decline-in-value program is effective and well administered.

California Land Conservation Act Property

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

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

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

For the 2008-09 roll year, Stanislaus County had approximately 8,268 parcels encumbered by CLCA contracts with a total of 700,343 acres and an assessed value of \$1,138,156,305. The total number of acres under contract has remained steady since the last survey. Meanwhile, the

number of acres in nonrenewal status has increased dramatically from 13,158 acres for the 2004-05 roll year to 46,429 acres for the 2008-09 roll year. Approximately 441,000 acres of the rural land in Stanislaus County is devoted to rangeland, which represents approximately 63 percent of all CLCA land. The remainder of the CLCA land is cropland.

The valuation of CLCA properties is the responsibility of five real property appraisers and one supervising appraiser. The assessor mails CLCA questionnaires for trees/vines and land. In addition, the assessor requests cash and share rents, compatible use information, production, etc. Questionnaires for trees/vines are mailed annually and questionnaires for bare land are mailed every other year. The assessor uses share rents to value CLCA properties with growing improvements and cash rents to value land. Field reviews are conducted to examine new construction, use of the property, the condition of the trees, crops, and vines relative to pruning and stress, trellis systems, irrigation, soil conditions, and other factors.

The CLCA valuation program is completely automated. The variable items posted are the capitalization rate, production, and income. The computer program calculates the restricted values and compares the restricted values with the factored base year values to determine the taxable values. Although market value is rarely the lowest value indicator of CLCA properties, there were 18 CLCA parcels on the 2007-08 roll year where the total market value was lower than all other values. All of these properties were reviewed for the 2008-09 roll year.

We found that the assessor correctly estimates the income stream for living improvements by utilizing an inclining-stable-declining approach to the income stream. Supplemental assessments are done correctly for the unrestricted portions of the contracted parcels. In accordance with Government Code section 51240, the county has adopted a 10-year enrollment period and a 12.5 percent cancellation fee. The assessor also recognizes compatible use income. The assessor estimates the duration of the use, capitalizes the rent as a level annuity, and then adds the present worth of the restricted reversionary value of the land to the present worth of the annuity.

In developing the capitalization rate used in valuing CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE and includes components for risk and taxes. The risk rates used range from 1-3 percent (1 percent for grazing, 1 percent for almonds and walnuts, 2 percent for apricots and nectarines, and 3 percent for cherries and boysenberries). Each commodity has its own additional risk factor based on the uncertainty of receiving the income. These factors are determined by the frailty of the crop, weather and water conditions, soil quality, and other factors. Labor is also a consideration. For example, almonds and walnuts are mechanically harvested, whereas peaches have to be hand-picked.

We found that the CLCA appraisals were well documented, complete, and reasonable. We also found that the assessor correctly establishes the base year value for homesites based on the market value at the date of sale. We have no recommendations regarding the assessor's CLCA program.

Taxable Possessory Interests

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

The assessor enrolled 302 taxable possessory interests on the 2008-09 assessment roll totaling \$38,335,683. These possessory interests are located on property owned by 57 public agencies and include a wide variety of uses including, but not limited to, fairground vendors and concessionaires, cable television franchises, hangars and tie downs at municipal airports, redevelopment agencies, and satellite wagering facilities.

The assessor discovers taxable possessory interests by reviewing reports from government agencies and field inspections. Each lien date, the assessor mails to each government agency in the county a summary of the taxable possessory interests the agency reported for the prior year.

The government agencies in Stanislaus County are typically cooperative and responsive. The assessor reports that approximately 75 percent of the questionnaires are properly completed. After the questionnaires are returned, an appraiser reviews the information, appraises any new taxable possessory interest(s), communicates appropriate remarks on the computerized appraisal record, and forwards the assessment for enrollment. The assessments are the responsibility of one appraiser and the taxable possessory interest program is overseen by one supervising appraiser.

We reviewed the assessor's written taxable possessory interest procedures and a number of taxable possessory interest records. We found that the valuation typically involves the use of contract rent (if reflective of market rents) to estimate income, deductions for operating expenses chargeable to the public lessor, and the use of the contract terms or estimated terms of possession.

We found that the assessor uses a reasonable term of possession when estimating the value of a taxable possessory interest, revalues taxable possessory interests at the end of the reasonably anticipated term of possession, correctly issues supplemental tax bills, and annually assesses all taxable possessory interests at the lower of current market value or factored base year value. The assessor also has a *Rule 21 Declining Term Report* for taxable possessory interests with a stated term. This report assures that periodic reviews are done to discover declines in value due to a decline in the remaining term.

Since our last survey, the assessor has adopted a resolution allowing the assessor to exempt all personal property with a full value of \$5,000 or less and all real property with a full value of \$2,000 or less.

We found two areas in the assessor's taxable possessory interest program in need of improvement.

RECOMMENDATION 4: Improve the taxable possessory interest program by:
(1) obtaining lease agreements for all newly created taxable possessory interests, and (2) using appropriate capitalization rates.

Obtain lease agreements for all newly created taxable possessory interests.

We found that the assessor obtained only a small percentage of the leases for taxable possessory interests. A review of the current lease is necessary to ensure the proper assessment of a taxable possessory interest.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Subsection (d)(1) explains the stated term of possession is deemed to be the reasonably anticipated term of possession except in certain situations, and subsection (e)(3)(C) explains how to determine the net operating income for capitalization purposes. These steps in the valuation process cannot be completed if the contract conveying the possessory interest is not reviewed. For example, the assessor may have some information relating to the initial lease term, but may not know of any renewal options contained in the lease or know the lessor/lessee expense allocations.

By not obtaining copies of current leases, the assessor is unable to determine what terms were agreed to between the parties and, therefore, would be unable to accurately value the taxable possessory interests; this could lead to incorrect assessments.

Use appropriate capitalization rates when valuing taxable possessory interests.

The assessor adds a tax component to the capitalization rate used in valuing taxable possessory interests even though the rent may be net of all expenses. A tax rate should be added only when it is an expense to the lessor. Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* states that a tax component is not necessary when the tenant pays the property tax. By erroneously including or excluding capitalization rate components, the assessor may be incorrectly assessing taxable possessory interests.

Leasehold Improvements

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

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

When real property is reported on form BOE-571-L, *Business Property Statement (BPS)*, coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property

division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

Discovery

The primary discovery tools for leasehold improvements are Schedule B of the BPS and building permits. Other discovery tools include review of leases, field observations, and audits of business records.

The assessor has developed a program to assess leasehold improvements that combines the resources of the real and business property divisions. Expenditures reported on Schedule B, columns 1, 2, and 4, are referred by the business property division to the real property division for review. The real property division determines whether the reported costs are for assessable new construction or if they represent replacement or repair of existing improvements. If it is determined there is assessable new construction to be enrolled on the secured roll, the appraiser communicates such discovery back to the business division via a *Property Statement Reference Card* and returns the BPS to the business property division for assessment of any unsecured improvements.

Only partial files or photocopies are transferred between the business division and the real property division. This enables the originating department to track the file while being worked by the other division. We found coordination is reasonably consistent.

Valuation

We reviewed a number of business property statements and real property records indicating tenant improvements. We verified reported costs and descriptions, proper identification of tenant improvements by the business property division, coordination between the business property division and the real property division to ensure proper assessment, and proper assessment of tenant improvements.

We found that real property information reported on the business property statement was properly transmitted to the real property division and processed in a timely manner. The assessor also properly classifies and assesses reported structural improvements to the secured roll and fixtures to the unsecured roll.

We found the assessor's leasehold improvement program complies with statutory requirements.

Mineral Property

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

Geothermal Properties. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

Mining Property

Stanislaus County has 13 active mining properties producing sand and gravel. These properties are appraised by a senior appraiser using the royalty method. We found one area of the assessor's mineral property program in need of improvement.

RECOMMENDATION 5: Measure declines in value using the entire appraisal unit as required by Rule 469(e)(2)(C).

Mineral right values are determined by the assessor using the royalty method. This method capitalizes the annual royalty payments to determine the leased fee mineral right interest value of the property. When compared to the current market value of the same interest, the adjusted base year value is typically the lower value.

Fixture and equipment values are appraised by the business property section using percent good tables to determine current market value; this value is typically a lower value than the adjusted base year value.

For each property, information from these two appraisals, mineral and fixtures, is not shared with the opposing units. Values are not combined to arrive at a total property value.

This procedure conflicts with the direction in Rule 469(e)(2)(C), which states that, for mineral properties, declines in value are to be measured on the entire appraisal unit, including land, improvements including fixtures, and reserves. (Leach pads, settling ponds, and tailings facilities are deemed separate appraisal units.)

To properly measure declines in value for the proper appraisal unit, the adjusted base year values of the fixtures and equipment must be tracked and combined with the adjusted base year value of the mineral rights to arrive at the proper adjusted base year value of the appraisal unit. This value can then be compared to the current market value of the mineral rights plus the fixtures and equipment. The lower value is then enrolled.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

As of August 2009, the assessor's staff assigned to the business property program consisted of 8 positions: 1 supervising auditor-appraiser, 2 senior auditor-appraisers, and 5 auditor-appraisers.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business equipment, and assessing manufactured homes.

Audit Program

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

Prior to January 1, 2009, Revenue and Taxation Code section 469 required county assessors to audit, at least once every four years, the books and records of any taxpayer engaged in a profession, trade, or business, if the taxpayer had assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of Revenue and Taxation Code section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of businesses with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted from the 2002–03 roll year to the 2005–06 roll year, with at least 50 percent to be selected from a pool of those businesses with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

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

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS
2008-09	266	244	22
2007-08	218	192	26
2006-07	208	192	16
2005-06	192	182	10
2004-05	202	200	2

The assessor completed 244 mandatory and 22 nonmandatory audits for the 2008-09 roll year. Under section 469 as amended the assessor is required to perform 112 audits per year. Based on this recent audit history, the assessor is conducting a sufficient number of audits to comply with the requirements of section 469 as amended.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed-time period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

We reviewed several of these waivers and found that when an audit cannot be completed timely, the assessor is diligent about obtaining a waiver and completing the audit within the statutory timeframe.

Audit Quality

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

We found the assessor has an excellent audit program. The audits were accurate, completed timely, well documented, and supported by a comprehensive audit checklist and detailed audit narrative. The assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment.

We reviewed a sampling of audits and found the assessor communicates the audit results in a detailed audit narrative report and audit recap control report. These reports indicate the types of records obtained, the results of the audit, the applicable legal citation for refunds or escapes, the name of the contact person, whether a tour of the facility was conducted, and if the supply estimate was reasonable. We verified that the assessor does not offset differences among different years.

Audit results are mailed to the taxpayer along with a letter indicating if there are escapes, refunds or a no-change audit. The letter notifies the taxpayer of their appeal rights and provides a contact at the assessor's office for answering questions regarding the audit. We found that the assessor has an effective audit program.

Business Property Statement Program

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

Workload

The Stanislaus County Assessor processed over 14,000 statements for the 2008-09 assessment roll.

General Statement Processing

When a business property statement is received, a clerk electronically scans the property statement's bar code into the computer system. The clerk then reviews the statement for completeness and updates any ownership or address changes. Once this initial review is completed, the property statements are combined with the appropriate business property records and assigned to an auditor-appraiser for valuation. The auditor-appraiser posts the information into the computer and the full cash value is calculated based on the valuation tables selected.

We reviewed the business property statement program, including written procedures, methods of discovery, use of BOE-prescribed forms, application of penalties, coordination with the real property staff, use of legal citations, e-filing, and storage and retention.

Our review of property statements found the assessor used BOE-prescribed forms, printed the situs on the statements, retained statements for the required six years, valued properties consistently, properly reviewed and valued construction in progress, coordinated with the real property staff, retained envelopes and applied penalties for late-filed statements, and reviewed signatures for proper authorization. We identified two areas for improvement.

RECOMMENDATION 6: Improve the business property statement program by:
(1) accepting only properly completed business property statements, and (2) properly referencing the correct code sections when estimating and enrolling non-filed requested business property statements.

Accept only properly completed business property statements.

We found the assessor is accepting business property statements (BPS) that are not properly completed. Section 445 requires a properly filed BPS to include a description of all taxable property in the detail required. The BPS consists of several parts that request information necessary for a valid assessment.

Part I requests the street address and telephone number of the business, the type of business, the name of a contact person, change of ownership information, the location of accounting records, and whether the business has any related entities within the county.

If incomplete, the BPS and a letter detailing the deficiency should be mailed to the assessee for proper completion. An incomplete BPS may lead to incorrect assessments.

Properly reference the correct code sections when estimating and enrolling non-filed requested business property statements.

We found that when the assessor estimates and enrolls values for non-filed requested business property statements, the assessor cites section 463 to enroll both the penalty and the estimate of value.

Section 463 allows the assessor to impose a 10 percent penalty of the assessed value on the unreported taxable property if the assessor requests a property statement to be filed and the taxpayer does not comply.

Section 501 states that after a written request by the assessor, any person that fails to comply with any provision of law for furnishing information required by section 441 and 470, the assessor, based upon information in his possession, shall estimate the value of the property and, based upon this estimate, promptly assess the property.

When a property statement is requested by the assessor and the taxpayer fails to file an annual property statement, the assessor should reference section 501 to estimate and enroll a value, and section 463 to enroll the 10 percent penalty.

By referencing only section 463, the implication is that the statement was received, but filed late. There are, however, instances when the assessor does not receive a property statement and will have to make an estimate based on the prior history of the company or the type of business, and in those instances the assessor should cite both sections 463 and 501 to enroll both the estimate of value and the 10 percent penalty.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a BPS. The assessor establishes an initial value and continues it for several years. Property statement filings or field reviews are required periodically. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated laundrettes, small cafes and small restaurants, and professional firms with small equipment holdings.

The direct billing program benefits both the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and a reduction in the workload for the assessor's staff, thereby increasing time available for the auditor-appraisers to perform other required duties.

The Stanislaus County Assessor maintains approximately 900 direct bill accounts with a goal to increase this figure to over 1,000. The assessor's direct bill criteria requires that the business have the same owner for at least the last two filing years, have a reported cost of \$75,000 or less, have consistent reporting with no significant changes in reported cost over the prior two years, and have only one location.

Once a business qualifies for direct billing, the assessor mails an annual letter to the taxpayer indicating the assessed value for the current lien date and requesting that the form be completed if any specified changes have occurred. These changes include any changes to the taxpayer's equipment (new, disposed or leased), a change in mailing address or ownership, if the taxpayer is out of business or closing the business, or if there has been any alteration to the real property.

We reviewed several direct bill accounts and found the assessor follows the guidelines.

Summary

Overall, we found that the assessors business property statement processing program to be effectively administered.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

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

We reviewed the assessor's processed business property statements and found the assessor properly values various types of properties, properly applies trade level, and correctly assesses construction in progress and supplies.

Manufactured Homes

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

As of January 1, 2009, Stanislaus County had 5,345 manufactured homes located within 118 mobilehome parks. All manufactured homes within the county are assigned a fictitious parcel number. These homes are then assigned to a real property appraiser based upon the home's location within the county and the type of property on which they are situated.

In order to value manufactured homes, the assessor uses both the *National Automotive Dealers Association's Manufactured Housing Appraisal Guide* (NADA) and Assessors' Handbook Section 531, *Residential Building Costs* (AH 531). When valuing these types of properties, the assessor correctly considers value-influencing factors, including the addition of accessories such as awnings, porches, and skirting, as well as the general overall condition of the manufactured home. They also closely monitor periodic reports from the State Department of Housing and Community Development for transfers and voluntary conversions.

During our review of the assessor's procedures and several manufactured home properties, we determined the assessor has an effective program for the discovery and assessment of manufactured homes. We identified two areas for improvement.

RECOMMENDATION 7: Improve the manufactured home program by: (1) taking into consideration the sale price of a new manufactured home as an indicator of fair market value, and (2) excluding site value from assessments of re-sold manufactured homes upon a change in ownership.

Take into consideration the sale price of a new manufactured home as an indicator of fair market value.

We found that the assessor valued new manufactured home sales using value guides without taking into consideration the sale price. Through State Department of Housing and Community Development (HCD) reports, we found sales of new manufactured homes purchased directly from a dealer with stated sale prices to be significantly different than the values based on value guides.

Section 5803(b) states that the assessor shall take into consideration, among other relevant factors, cost data or sale prices listed in cost data pursuant to section 401.5 or sale prices listed in

recognized value guides, including NADA. For sales of new manufactured homes bought directly from the dealer, the relevant factors include the reported sale price, because new manufactured home sales purchased directly from the dealer would not include depreciation or site value.

Failure to take into consideration the sale price (including transportation and set up) of new manufactured homes in the valuation process may result in incorrect assessments.

Exclude site value from assessments of re-sold manufactured homes upon a change in ownership.

Section 5803(b) prohibits the inclusion of site value in manufactured home assessments. It also requires that the assessor consider published value guides, such as NADA or AH 531.35, in establishing values for manufactured homes in mobilehome parks.

The assessor's staff believes that neither NADA nor AH 531.35 provide an accurate indication of the fair market value of manufactured homes within Stanislaus County. Consequently, the assessor created an independent value analysis by comparing the values from NADA and AH 531.35 to derive a factor from the comparison of the two publications in conjunction with a database of actual sale prices from the previous year in Stanislaus County. However, the sale prices used have not been adjusted for site influence. Section 5803(b) prohibits the inclusion of site value in manufactured home assessments. The factor used (generally between 1.2 and 1.5) causes significant over-assessment of manufactured homes.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Stanislaus County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

David Dodson

Supervising Property Appraiser

Survey Team Leader:

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Michael Ash

Associate Property Appraiser

Andy Austin

Associate Property Appraiser

Tammy Aguiar

Associate Property Appraiser

Mike Nicholas

Tax Auditor

Catherine Houlihan

Associate Property Auditor-Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

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

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

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

The board may, for good cause, extend the period for filing the response.

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

Rule 371. **Significant assessment problems.**

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

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

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

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

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

The Stanislaus County Assessor's response begins on the next page. The Board has no comments on the response.



David E. Cogdill Sr., MAI, RM
Stanislaus County Assessor

RECEIVED

APR 20 2011

1010 Tenth St., Suite 2400
Merced, CA 95354-0847

Don Oppman
Assistant Assessor

County-Assessed Properties Division
State Board of Equalization
Phone: (209) 525-6461
Fax: (209) 525-6586

www.stancounty.com/assessor

April 8, 2011

Mr. Dean R. Kinnee, Chief
State Board of Equalization
Property and Special Taxes Department
County Assessed Properties Division
P O Box 942879
Sacramento CA 94279-0064

Dear Mr. Kinnee:

I am in receipt of two copies of the confidential post conference draft of the Stanislaus County Assessment Practices Survey Report dated March 2011, recently sent by you. Pursuant to section 15645 Government Code, I am herewith providing you my written response to the findings and recommendations contained within the draft survey report. It is my understanding that the survey report, together with my responses and the BOE's comments on my responses, if any, will constitute the final survey report.

Recommendation 1: Allow the Clerk of the Board to complete administrative duties as required in the assessment appeals process.

Response: This policy has been fully implemented by Stanislaus County.

Recommendation 2: Submit quarterly reports to the BOE listing approved section 69.5 base year value transfers.

Response: This policy has been fully implemented by Stanislaus County.

Recommendation 3: Improve the new construction assessment program by: (1) enrolling construction in progress at its full market value on each lien date pursuant to section 71, and (2) obtaining building permits from all permit issuing agencies.

Response: We concur. (1) Construction in progress will be enrolled at its full market value on each lien date. (2) We are in the process of implementing procedures to obtain building permits from all permit issuing agencies.

Recommendation 4: Improve the taxable possessory interest program by: (1) obtaining lease agreements for all newly created taxable possessory interest, and (2) using appropriate capitalization rates.

State Board of Equalization
April 8, 2011
Page Two

Response: (1) There is no issue with this finding. However, this is not something the Assessor can entirely control. The past practice has been to rely on the annual usage report as a primary tool and request lease agreements by phone or by mail as we determine is necessary. Agencies are not always cooperative in providing this information and in some situations had been openly resistant to the idea. Annual written request for tenant data have not previously asked agencies to include lease agreements. To address this, the Assessor will change the outgoing letter to also request copies of any written lease agreement completed in the past calendar year and will follow-up with e-mail and phone requests where necessary.

(2) With rare exception, possessory interest agreements in Stanislaus County require the tenant to pay any possessory interest tax. The Assessor will consider that actual rents negotiated between the non-assessable landlords and tenants are net of taxes unless otherwise stated in the lease. Where no actual rent can be obtained, or where the actual rent is determined not to be economic, the Assessor must independently determine a fair economic rent for the possessory interest. In those cases where the best available economic rent information comes from gross or full-service rents, where the landlord would normally pay the taxes, the Assessor will continue to add a tax rate component to the overall capitalization rate.

Recommendation 5: Measure declines in value using the entire appraisal unit as required by rule 469 (e) (2) (C).

Response: We agree and have taken steps to improve our mineral property assessments program.

Recommendation 6: Improve the business property statement program by: (1) accepting only properly completed business property statements, and (2) properly referencing the correct code sections when estimating and enrolling non-filed requested business property statements.

Response: (1) While we understand the importance of accepting only fully completed business property statements, the impact of rejecting thousands of statements would put a heavy burden on our staff that far exceeds the benefits of discovery through this channel. Currently, we reject approximately 5% of our total statements when we don't have enough information to make a proper assessment.

(2) We feel the statement "properly referencing the correct code sections when estimating and enrolling non-filed requested business property statements" is vague in referencing of code sections when applying values to the current roll. In the past, when working late or non-filed property statements, we didn't specifically reference code sections on the workpapers used for the basis of the assessments. This has always been implied. However, per your recommendation, we have revised our work papers

State Board of Equalization
April 8, 2011
Page Three

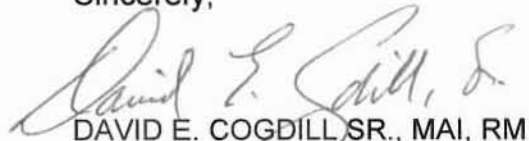
used for non-filers, and the auditors will "check" the R & T Code Section 501 box on the form when assessment are based on estimates.

Recommendation 7: Improve the manufactured home program by (1) taking into consideration the sale price of a new manufactured home as an indicator of fair market value, and (2) excluding site value from assessments of re-sold manufactured homes upon a change in ownership.

Response: We agree and have changed our policy and procedures to accept the stated sale price (including transportation and set up costs) of new manufactured homes. Also we now exclude site value from assessments of re-sold manufactured homes upon a change in ownership. We have returned to using NADA to provide an acceptable indicator of fair market value of re-sold manufactured homes within Stanislaus County.

Thank you for the opportunity to provide the above responses.

Sincerely,



DAVID E. COGDILL SR., MAI, RM
Stanislaus County Assessor

DEC:emb