CONTRA COSTA COUNTY ASSESSMENT PRACTICES SURVEY

JANUARY 2019

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STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
1-916-274-3350 ● FAX 1-916-285-0134
www.boe.ca.gov

SEN. TED GAINES (RET.)
First District, Sacramento

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Second District, San Francisco

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BRENDA FLEMING
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January 25, 2019

No. 2019/003

TO COUNTY ASSESSORS:

CONTRA COSTA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Contra Costa 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 specified counties 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 Gus S. Kramer, Contra Costa 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 Contra Costa County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Mr. Kramer 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.

Sincerely,

/s/ David Yeung

David Yeung
Chief, County-Assessed Properties Division
Property Tax Department

DY:dcl
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum 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 specified county assessors' offices. This report reflects the BOE's findings in its current survey of the Contra Costa 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 Contra Costa 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 Gus S. Kramer, Contra Costa County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

OBJECTIVE

The survey shall "…show the extent to which assessment practices are consistent with or differ from state law and regulations."[1] The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

The objective of the survey program is to promote statewide uniformity and consistency in property tax assessment by reviewing each specified county's property assessment practices and procedures, and publishing an assessment practices survey report. Every assessor is required to identify and assess all properties located within the county – unless specifically exempt – and maintain a database or "roll" of the properties and their assessed values. If the assessor's roll meets state requirements, the county is allowed to recapture some administrative costs.

SCOPE AND METHODOLOGY

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.

Pursuant to Revenue and Taxation Code[2] 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.

This survey included an assessment sample of the 2017-18 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.[3]

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[1] Government Code section 15642.

[2] Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

[3] For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

Our survey methodology of the Contra Costa 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 Contra Costa County who provided information relevant to the property tax assessment program.

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

We conducted reviews of the following areas:

- Administration

  We reviewed the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, staff property and activities, assessment appeals, and exemptions.

- Assessment of Real Property

  We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as mineral property.

- Assessment of Personal Property and Fixtures

  We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, and business equipment valuation.

EXECUTIVE SUMMARY

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.

We examined the assessment practices of the Contra Costa County Assessor's Office for the 2017-18 assessment roll and followed up on recommendations from our prior survey of this county. In our 2015 assessment practices survey of Contra Costa County, we made three recommendations to address problems found in the assessor's policies and procedures. Our review of these prior recommendations, responses, and current status are detailed in the appendix.

In the area of administration, the assessor is effectively managing staffing and workload. However, we made recommendations for improvement in the exemptions program.

In the area of real property assessment, the assessor has effective programs for new construction, declines in value, and mineral property. However, we made recommendations for improvement in the change in ownership program.

In the area of personal property and fixtures assessment, the assessor has effective programs for processing business property statements. However, we made recommendations for improvement in the audit and business equipment valuation programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly, and that the overall quality of the assessment roll meets state standards.

The Contra Costa County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2017-18 assessment roll indicated an average assessment ratio of 99.44 percent, and the sum of the absolute differences from the required assessment level was 0.57 percent. Accordingly, the BOE certifies that Contra Costa County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF CONTRA COSTA COUNTY

Contra Costa County is located in the western part of California, and it is one of the nine counties that make up the San Francisco Bay Area. The county encompasses 715.94 square miles of land area and 87.83 square miles of water area. Created in 1850, Contra Costa County was one of California's original 27 counties. The county is bordered on the north by Solano and Sacramento Counties, on the east by San Joaquin County, on the south by Alameda County, and on the west by San Francisco Bay.

As of 2017, Contra Costa County had a population of 1,049,200. There are 19 incorporated cities in Contra Costa County. Those cities included Antioch, Brentwood, Clayton, Concord, Danville, El Cerrito, Hercules, Lafayette, Martinez, Moraga, Oakley, Orinda, Pinole, Pittsburg, Pleasant Hill, Richmond, San Pablo, San Ramon, and Walnut Creek. The county seat is Martinez.

The Contra Costa County local assessment roll ranks 10th highest in assessed value of the 58 county assessment rolls in California. The total assessed roll value has increased/decreased by an annual average of 6.3 percent over the last five years.[4]

[4] Statistics provided by the California State Board of Equalization Annual Report, Table 7 2017-18.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Contra Costa County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

RECOMMENDATION 1: Improve the administration of the welfare exemption program by: (1) properly applying late-filing provisions in cases where the $250 limit is applicable, and (2) implementing consistent procedures when granting partial exemptions involving personal property. 8

RECOMMENDATION 2: Improve the Change in Ownership program by: (1) correcting conflicting information provided in the final request for information letter and the subsequent penalty notification letter, and (2) correctly calculating penalties as required by section 482(a). 10

RECOMMENDATION 3: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469. 12

RECOMMENDATION 4: Properly classify fixed machinery and equipment as fixtures for service station assessments. 13

RECOMMENDATION 5: Improve the business equipment valuation program by: (1) properly valuing structural leasehold improvements reported on the BPS, and (2) issuing supplemental assessments for structural leasehold improvements assessed on the unsecured roll. 14

ADMINISTRATION

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.[5]

Our review of the assessor's exemptions program focused on welfare 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 have 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.

In Contra Costa County, the welfare exemptions program is administered by a senior level clerk and a local exemptions specialist. The Board of Supervisors has not passed a resolution to require assessor staff that makes decisions regarding property tax exemptions to hold a valid assessment analyst certificate. The clerical staff manager is responsible for managerial review and oversight of the program.

We reviewed a variety of welfare exemption claims which include those that were granted full and partial exemptions, first-time and annual filings, and late filings. We reviewed claims for

[5]For a detailed description of the scope of our review of this topic, please refer to the document entitled *Exemptions,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

property used for charitable, religious, scientific, and hospital purposes, including low-income rental housing properties.

We found that appropriate timely filing procedures are observed and that documents and information necessary to administer exemptions are well maintained and readily available. However, we found areas in need of improvement.

RECOMMENDATION 1: Improve the administration of the welfare exemption program by: (1) properly applying late-filing provisions in cases where the $250 limit is applicable, and (2) implementing consistent procedures when granting partial exemptions involving personal property.

Properly apply late-filing provisions in cases where the $250 limit is applicable.

We found that when welfare exemption claims were not timely filed, under certain circumstances, the assessor is not properly applying late-filing provisions in accordance with sections 270 and 271. In cases where the tax, penalty, or interest of $250 limit is applicable, the assessor's procedure in treating these late-filed claims is to allow the full amount of the eligible exemption and then request the Contra Costa County Treasurer – Tax Collector to include the $250 late –filing penalty amount onto the special taxes and assessment section of the tax bill as a direct billing item.

Section 255(a) provides that annual claims for the welfare exemption must be filed with the assessor between lien date January 1 and 5 p.m. on February 15. Section 270 states that 90 percent of any tax, penalty, or interest will be cancelled or refunded if the claim is filed on or before January 1 of the next calendar year. If a claim is filed after January 1 of the next calendar year, then 85 percent of any tax, penalty, or interest shall be cancelled or refunded. For property acquired after the lien date or for organizations not in existence as of lien date, section 271 provides a different set of claim-filing deadlines, with the provision that if a claim is not timely filed, 85 percent of any tax, penalty, or interest shall be cancelled or refunded. In all cases, the total amount of tax, penalty, and interest shall be cancelled or refunded so that threshold of $250 is not exceeded per organization per year.[6] In cases where the net value would result in a tax that is less than $250, upon granting 85 or 90 percent of the exemption to reflect a late-filed claim, the assessor correctly adjusted the exemption amount.

The statutes do not allow a direct charge to be added to a tax bill for late filing. The methodology used by the assessor prevents the collection and distribution of the $250 taxes levied based on the parcel's net value. By not properly applying late-filing provisions on welfare exemption claims, the assessor is not in compliance with statutory requirements.

[6] Additional information and examples for applying the late filing provisions of section 270 and 271 can be found in Letter To Assessors No. 2014/058, *Effective Administrative Practices – Welfare Exemption*, available on the BOE website at: http://www.boe.ca.gov/proptaxes/pdf/lta14058.pdf.

Implement consistent procedures when granting partial exemptions involving personal property.

We encountered inconsistencies when a partial exemption is warranted on real property where the claimant is also seeking exemption on personal property owned by the organization. We found that prior to the 2017-2018 fiscal year, personal property used solely by the claimant properly received full exemption even if the land and improvements were only granted a partial exemption due to some non-qualifying use of the property in the case where portions of the real property were leased to a non-qualifying organization. However, as of the 2017-2018 fiscal year, we found that the assessor applied the same percentage of exemption to personal property as that of the land and improvements, regardless of the actual use of the personal property.

When a qualifying non-profit organization leases out a portion of its building to a non-qualifying entity and a partial exemption on the real property is granted, the assessor should determine the actual use of the personal property owned by the non-profit organization. If the personal property is used solely for exempt purposes, it should be granted 100 percent exemption, regardless of the partial exemption given to the land and improvements. Questions on BOE-267, *Welfare Exemption, First Filing*, and BOE-267-A, *Welfare Exemption, Annual Filing* ask for a description and use of the personal property and if it is used by others. The assessor should confirm the use of personal property and apply the exemption accordingly.

The assessor's inconsistent application of the welfare exemption on personal property may result in improper granting or denial of exemptions.

ASSESSMENT OF REAL PROPERTY

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 a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.[7]

Penalties

When a recorded document is received without a BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), or the PCOR is incomplete, the assessor sends the property owner a letter and a county-developed change of ownership questionnaire. The property owner is given 40 days to respond and return the questionnaire. If there is no response within 40 days, a second county-developed change of ownership questionnaire is sent. If there is no response to the second request, the assessor, in September of each year, sends a county-developed *Final Request for Information* letter and a BOE-502-AH, *Change of Ownership Statement* (COS). If there is no response to this request after 90 days, the assessor, in mid to late January, notifies the county auditor of the penalty. The county has adopted an ordinance pursuant to section 483(b) allowing the assessor to abate penalties automatically.

We reviewed the assessor's application of the penalty process and found areas in need of improvement:

RECOMMENDATION 2: Improve the Change in Ownership program by: (1) correcting conflicting information provided in the final request for information letter and the subsequent penalty notification letter, and (2) correctly calculating penalties as required by section 482(a).

Correct conflicting information provided in the final request for information letter and the subsequent penalty notification letter.

We found that the *Final Request for Information* letter and the subsequent penalty notification letter provide conflicting information to the property owner. When a property owner fails to return a second requested county-developed change in ownership statement questionnaire, the assessor sends a COS to the property owner, along with a county-developed final request for information letter. This letter refers to the COS as the Change in Ownership Statement,

[7] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

throughout the document, but in the conclusion of the letter uses the term "questionnaire." This may be confusing and may lead the taxpayer to believe an additional form is required to satisfy the timely filing of the COS.

The assessor also provides abatement information on both the letter accompanying the COS and if applicable, on the penalty notice. This practice is acceptable in both cases, although, as it appears on the letter accompanying the COS is somewhat premature as an abatement process would not be necessary should the taxpayer return the COS timely. Further, the abatement information suggests that an "application" is required to facilitate an abatement. Contra Costa County has passed an ordinance allowing for automatic abatement provided the taxpayer return the COS within 60 days of receiving the penalty notice.

By referring the COS as both a Change in Ownership Statement and a questionnaire, the assessor may inadvertently confuse the taxpayer as to the filing process. In addition, the abatement process should be clearly explained as to what the taxpayer's responsibility is so not to mislead the taxpayer.

Correctly calculate penalties as required by section 482(a).

We found instances where COS penalties were not calculated correctly for the late filing of a COS under the provisions of section 482(a). COS penalties are not calculated based on the new base year value that reflects the change in ownership of the real property. Instead they are calculated on the factored base year value as of the following lien date. Section 482(a) emphasizes the importance of this requirement:

> If a person or legal entity required to file a statement described in Section 480 fails to do so within 90 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars ($100), or (2) 10 percent of the taxes applicable to the new base year value shall be added to the assessment made on the roll.

The assessor should ensure that penalties are properly calculated by the county auditor by providing the new base year value for each property upon which the penalty applies. By failing to apply the required section 482(a) penalty based on the new base year value reflecting the change in ownership of the real property, the assessor is not following statutory requirements.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct 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 during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.[8]

For Contra Costa County, the minimum required number of audits to be conducted each year is 175, with the additional requirement that 88 of those audits (87 in alternate years) are to be performed on taxpayers selected from a pool of those taxpayers that have the largest assessments.[9] During the surveyed assessment year, audit responsibility rested upon five auditor-appraisers and one support staff member, serving under the direction of a supervising auditor-appraiser, and a principal appraiser.

Overall, the assessor's audit program is well managed and audit quality is consistently good. However, we found an area in need of improvement.

RECOMMENDATION 3: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found that the assessor did not conduct the minimum required number of audits from the pool of taxpayers with the largest assessments of locally assessable trade fixtures and business tangible personal property during three of the four most recently completed audit years. Additionally, as of the date of our field review, the assessor had only completed 49 of the 175 minimum required total number of audits thereby leaving the possibility of falling short of the mandate for the 2017-18 assessment year as well. The vacancy of four auditor-appraiser positions contributed to the deficit in audit production in the business division during the surveyed period.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well-managed

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[8] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

[9] Refer to Letter To Assessors No. 2009/049, *Significant Number of Business Property Audits*.

assessment program. Assessors' Handbook Section 506, *Property Tax Audits and Audit Program*, provides guidance in developing and improving a property tax audit and the audit program by presenting and discussing statutory provisions, suggested organizational tools, and audit practices and procedures.

By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

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. Under this methodology, value for taxation purposes is established by multiplying a property's historical cost by an appropriate valuation factor.[10]

Classification

For assessment purposes, machinery and equipment costs reported on Schedule A of the BOE-571-L, *Business Property Statement* (BPS), may represent either personal property, or fixtures, or both. Business trade fixtures are also reported on Schedule B of the BPS. A fixture is an item of tangible property that was originally personal property but is now classified as real property for property tax purposes because it has become physically or constructively annexed to real property with the intent that it remain annexed indefinitely.

The assessor allocates reported machinery and equipment to fixtures and personal property based upon standardized ratios prescribed in the assessor's business class code index. We reviewed a number of business property assessments utilizing the standardized allocations and found, in most circumstances, consistent and reasonable fixture allocations were made in accordance with the assessor's guidelines. However, we found an area in need of improvement related to service station assessments.

RECOMMENDATION 4: Properly classify fixed machinery and equipment as fixtures for service station assessments.

We found the assessor does not properly classify fixed machinery and equipment associated with service station assessments as fixtures. In addition, the assessor does not apply an appropriate fixture allocation percentage to machinery and equipment reported in bulk on the business property statement when valuing service station assessments.

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[10] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation,* available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.

The majority of taxable business equipment associated with service stations is composed of fixtures. Service station related fixtures (such as fuel pumps, dispensers, piping, hoists, island curbing, walk-in cooler boxes and freezers, and other retail fixtures) are often reported with machinery and equipment. Letter To Assessors (LTA) No. 92/27 provides assessors guidance in making classification decisions when enrolling service station business equipment. Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, also offers classification guidelines and a discussion of special classification issues.

Classification is an important element of the local assessment function for several reasons. Principally, it is important because property tax law requires the assessment roll to show separate values for land, improvements (including fixtures), and personal property. It is also significant because of the assessment differences between real property and personal property. Those differences include: (1) only real property receives special assessments, (2) personal property is appraised annually at market value, while fixtures are assessed at the lower of current market value or factored base year value, and (3) fixtures are a separate appraisal unit when measuring declines in value.

The assessor's current practice may lead to inaccurate allocations between fixtures and personal property in service station assessments and cause incorrect assessments.

Application of BOE Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended and published by the BOE in Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good Valuation Factors.* We reviewed the assessor's valuation tables and a number of processed BPSs. In most of the observed cases, valuation calculations enrolled by the assessor reflected both consistent and appropriate applications of BOE-recommended valuation tables. However, we found problems with the assessor's valuation procedures in relation to structural leasehold improvements.

RECOMMENDATION 5: Improve the business equipment valuation program by: (1) properly valuing structural leasehold improvements reported on the BPS, and (2) issuing supplemental assessments for structural leasehold improvements assessed on the unsecured roll.

Properly value structural leasehold improvements reported on the BPS.

We found instances where the assessor calculated a value conclusion by applying business equipment valuation tables to structural leasehold improvements reported in column 1 of Schedule B of the BPS.

Cost data reported in column 1 of Schedule B of the BPS often relate to structural improvements made by the tenant or lessee. Structural improvements, whether paid for by the tenant or the landlord, should be assessed in the same manner as other real property. A base year value should be established and factored each subsequent roll year by the annually determined inflation factor in accordance with article XIII A of the California Constitution.

By applying depreciation schedules to reported costs of structural leasehold improvements, the assessor improperly recognizes leasehold structural improvements as a separate appraisal unit, inconsistent with the provisions of Rule 461(e), which states that for determining declines in value that the appraisal unit, generally, consists of land and improvements.

Issue supplemental assessments for structural leasehold improvements assessed on the unsecured roll.

We found that the assessor does not issue supplemental assessments as required by section 75.14 when structural leasehold improvements reported on Schedule B of the BPS are enrolled by the business division.

Section 75.14 provides that all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessment. Section 75.11 provides that supplemental assessments shall be issued following a change in ownership or completed new construction. Structural leasehold improvements, which are real property, are subject to supplemental assessment, regardless of whether they are enrolled on the secured or unsecured roll.

The assessor's failure to issue supplemental assessments for structural leasehold improvements is contrary to statute and results in unequal treatment of taxpayers and loss of tax revenue.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following chart displays pertinent information from the 2017-2018 assessment roll.[11]

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	$ 84,424,753,903
	Improvements	$107,579,010,616
	Personal Property	$ 822,075,562
	Total Secured	$192,825,840,081
Unsecured Roll	Land	$ 169,947,234
	Improvements	$ 3,070,952,059
	Personal Property	$ 2,261,020,772
	Total Unsecured	$ 5,501,920,065
Exemptions[12]		($ 6,033,281,924)
	Total Assessment Roll	$192,294,478,222

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:[13]

YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2017-18	$192,294,478,000	5.8%	6.3%
2016-17	$181,701,601,000	6.0%	5.5%
2015-16	$171,392,996,000	7.4%	6.0%
2014-15	$159,519,758,000	9.1%	6.2%
2013-14	$146,202,830,000	3.1%	4.3%

[11] Statistics provided by BOE-822, *Report of Assessed Values By City*, Contra Costa County for year 2017-18.
[12] The value of the Homeowners' Exemption is excluded from the exemptions total.
[13] Statistics provided by the California State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from $15,357,468 in 2013-14 to $16,406,885 in 2017-18.

As of the date of our survey, the assessor had 122 budgeted permanent staff. This included the assessor, assistant assessor, 6 managers, 48 real property appraisers, 10 business property auditor-appraisers, 7 cadastral draftspersons, 2 computer programmers-analysts-technicians, 9 other technical/professional, and 38 support staff.

The following table identifies the assessor's budget and staffing over recent years:[14]

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2017-18	$16,406,885	2.5%	122
2016-17	$16,000,409	0.1%	122
2015-16	$15,984,685	3.6%	122
2014-15	$15,425,817	0.5%	122
2013-14	$15,357,468	-4.7%	122

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:[15]

YEAR	ASSESSMENT APPEALS FILED
2017-18	590
2016-17	583
2015-16	531
2014-15	636
2013-14	1,089

[14] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2013-14 through 2017-18.
[15] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2013-14 through 2017-18.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:[16]

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2017-18	1,042	$4,789,273,626
2016-17	1,051	$4,539,992,571
2015-16	1,056	$4,321,897,075
2014-15	1,058	$4,159,199,680
2013-14	1,037	$4,014,635,298

Table 6: Change in Ownership

The following table shows the total number of transfer documents received and the total number of reappraisable transfers due to changes in ownership processed in recent years:[17]

YEAR	TOTAL TRANSFER DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2017-18	52,724	20,888
2016-17	51,532	22,071
2015-16	51,934	21,314
2014-15	44,492	22,859
2013-14	47,869	26,024

[16] Statistics provided by BOE-802, *Report on Exemptions*, for years 2013-14 through 2017-18.
[17] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2013-14 through 2017-18.

Table 7: New Construction

The following table shows the total number of building permits received and the total number of new construction assessments processed in recent years:[18]

YEAR	TOTAL BUILDING PERMITS RECEIVED	NEW CONSTRUCTION ASSESSMENTS
2017-18	60,202	3,676
2016-17	65,815	4,332
2015-16	27,414	3,542
2014-15	28,172	3,138
2013-14	24,748	3,695

Table 8: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:[19]

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2017-18	34,673
2016-17	44,055
2015-16	56,393
2014-15	80,605
2013-14	153,289

[18] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2013-14 through 2017-18.
[19] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2013-14 through 2017-18.

Table 9: Audits

The following table illustrates the assessor's audit production during recent years:

MINIMUM NUMBER OF AUDITS REQUIRED[20]	2017-18	2016-17	2015-16	2014-15	2013-14
Largest Assessments	87	88	87	88	87
All Other Taxpayers	88	87	88	87	88
Total Required	175	175	175	175	175
NUMBER OF AUDITS COMPLETED					
Total Audits Completed	49	125	176	168	196
Largest Assessments	19	63	80	76	102
Over/(Under) Required	(68)	(25)	(7)	(12)	15
All Other Taxpayers	30	62	96	92	94
Over/(Under) Required	(58)	(25)	8	5	6
CCCASE AUDITS					
Prepared for other county assessors	0	2	11	32	31

[20] See LTA No. 2009/049, *Significant Number of Business Property Audits,* for the minimum number of annual audits required pursuant to the provisions of Revenue and Taxation Code section 469.

APPENDIX B: PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our March 2015 Assessment Practices Survey Report and the assessor's response to each recommendation. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our survey fieldwork.

Change in Ownership

RECOMMENDATION 1: Improve the change in ownership program by not sending a notice of penalty letter to a property owner when making an initial request for completion of a COS.

Original Findings:

When a property owner fails to return a second requested county-developed *Change in Ownership Statement* questionnaire, the assessor sends a COS to the property owner, along with a cover letter stamped "PENALTY NOTICE." This is the assessor's first request to have the property owner file a COS. The assessor's penalty notice letter states, in part:

> This is to notify you that the change in ownership statement requested pursuant to section 480 (on back) of the California Revenue and Taxation Code has not been received by this office.

However, this is the assessor's first request to have the property owner file a COS. The assessor's notice of penalty letter goes on to state:

> Failure to file this statement in a timely manner requires the penalty prescribed by the provisions of section 482 (on back) of the Revenue and Taxation Code be imposed. Under the requirements of law, we are enrolling the penalty and it will be added to the current year's property taxes.

However, the property owner has 90 days to file the requested COS before a penalty may be applied. The assessor's notice of penalty letter is incorrectly informing the property owner that a penalty is already applicable at the time of request to file the COS.

Assessor's Original Response:

We concur. The letter accompanying the initial request for completion of a COS has been revised.

Current Status:

The assessor has implemented this recommendation. The assessor has revised the cover letter included with the first and only request to have the transferee complete and submit a BOE-502-AH, *Change of Ownership Statement* (COS). The assessor has removed the notation "PENALTY NOTICE" at the top of the letter.

Additionally, the following paragraph found in the original letter:

> Failure to file this statement in a timely manner requires the penalty prescribed by the provisions of section 482 (on back) of the Revenue and Taxation Code be imposed. Under the requirements of law, we are enrolling the penalty and it will be added to the current year's property taxes.

Has been revised to read:

> Failure to complete and return the enclosed Change in Ownership Statement within 90 days will result in the imposition of the penalty prescribed by section 482 of the Revenue and Taxation Code (see back). Under the requirements of law, if we do not receive a completed Change in Ownership Statement within 90 days, we will enroll the penalty and it will be added to the current year's property taxes.

Mineral Property

RECOMMENDATION 2: Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

Original Findings:

We found that when measuring for declines in value for mineral properties, the assessor does not combine the values for mineral rights, improvements (including fixtures), and land into one value for a total appraisal unit value when determining whether to enroll the adjusted base year value or the current market value. The assessor's real property section determines the value of the mineral rights using the royalty method, while the business property section determines the value of the fixtures associated with the mineral property. These values determined by the two separate sections are not combined into a single appraisal unit value. Instead, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value of such fixtures. This procedure conflicts with Rule 469(e)(2)(C).

Assessor's Original Response:

We concur. This only affected 2 parcels in the whole county. A new procedure has been implemented for these parcels.

Current Status:

The assessor has implemented this recommendation. Procedures have been employed to collect data from the business property unit to provide the current market value of fixtures and improvements as well as the adjusted base year value of fixtures and improvements. The assessor should now be able to ensure that the components of the appraisal unit, mineral rights, improvements (including fixtures), and land, are summed before determining whether to enroll the adjusted base year value for the appraisal unit or its current market value.

Business Property Statement

RECOMMENDATION 3: Conduct an audit or field review when property owners fail to file a BPS for three or more consecutive years.

Original Findings:

We found that the assessor sets no formal limits on the number of consecutive years a business property owner may fail to file a BPS before the assessor either visits the location of the taxable property or conducts an audit.

Assessor's Original Response:

We concur. A new procedure has been implemented to review assessments of businesses that failed to file a BPS statement for three or more consecutive years.

Current Status:

The assessor has partially implemented this recommendation. The assessor has established procedures to track and review all business property assessments whose owners fail to file a business property statement for three or more consecutive years. In most cases, however, the assessor's review is limited to a social media search and/or a phone call rather than an audit or field review.

APPENDIX C: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Contra Costa County

Chief

David Yeung

Survey Program Director:

Diane Yasui	Manager, Property Tax

Survey Team Supervisor:

Andrew Austin	Supervisor, Property Tax

Survey Team:

James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Tammy Aguiar	Senior Specialist Property Appraiser
Margie Wing	Senior Specialist Property Appraiser
Tina Baxter	Associate Property Appraiser
Christine Bradley	Associate Property Appraiser
Lauren Keach	Associate Property Appraiser
Jeff Arthur	Associate Property Auditor-Appraiser
Alexander Fries	Assistant Property Appraiser
Amanda Lopez	Assistant Property Appraiser
Dany Lunetta	Associate Governmental Program Analyst
Zhanna Denisyuk	Tax Technician I

APPENDIX D: RELEVANT STATUTES AND REGULATIONS

Reference	
Government Code	
§15640	**Survey by board of county assessment procedures.**
§15641	**Audit of records; appraisal data not public.**
§15642	**Research by board employees.**
§15643	**When surveys to be made.**
§15644	**Recommendations by board.**
§15645	**Survey report; final survey report; assessor's report.**
§15646	**Copies of final survey reports to be filed with local officials.**
Revenue and Taxation Code	
§75.60	**Allocation for administration.**
Title 18, California Code of Regulations	
Rule 371	**Significant assessment problems.**

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations 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 Contra Costa County Assessor's response begins on the next page. The BOE has no comments on the response.

Contra Costa County

Office of Assessor

2530 Arnold Drive, Suite 400
Martinez, California 94553-4359
FAX: (925) 313-7660
Telephone: (925) 313-7500

Gus S. Kramer
Assessor

Sara Holman
Assistant Assessor
Administration

Param S. Bhatia
Assistant Assessor
Valuation

November 29, 2018

Mr. David Yeung, Chief
State Board of Equalization
County-Assessed Properties Division
Property Tax Division
P.O. Box 942879
Sacramento, CA 94279-0064

Dear Mr. Yeung:

Pursuant to Section 15645 of the California Government Code, enclosed is the Contra Costa County Assessor's response to the recommendations contained in the Assessment Practices Survey of the 2017-18 assessment roll conducted by the State Board of Equalization. Please incorporate my responses into your final Assessment Practices Survey Report.

We appreciate the survey team's positive and praising comments regarding the office's assessment procedures and practices. The report found the Contra Costa County Assessor's Office assessment program to be effective, comprehensive, well- managed and in compliance with statutory requirements. The report further recognizes that the Assessor's office has improved efficiencies and its operations through the continued development and use of new technology.

In my response to the survey report, you will see that I have concurred and implemented all of the State Board of Equalization's recommendations.

I would like to thank all of the State Board of Equalization survey team members for the professional and courteous manner in which they conducted themselves throughout the survey.

Also, I would like to express my gratitude for the employees of the Assessor's Office for their hard work, expertise, dedication, and commitment to public service.

Sincerely,

GUS S. KRAMER
County Assessor

Enclosure

Cc: Ms. Diane Yasui
Mr. Andrew Austin

Recommendation 1: improve the administration of the welfare exemption program by:

(1) properly applying late-filing provisions in cases where the $250 limit is applicable, and

(2) implementing consistent procedures when granting partial exemptions involving personal property.

(1) We respectfully disagree with this portion of Recommendation 1. The Board states that "The statutes do not allow a direct charge to be added to a tax bill for late filing. The methodology used by the assessor prevents the collection and distribution of the $250 taxes levied based on the parcel's net value." The statutes are silent on the method of imposing the late-filing penalty – they neither allow nor disallow a direct charge. The assessor is not responsible for the collection or distribution of taxes, and the levying of the late-filing penalty as a direct charge does not prevent the auditor-controller from appropriately distributing the taxes resulting from it. We have consulted with the Auditor-Controller's office regarding this portion of this recommendation and are satisfied that our procedure meets both the intent and the letter of all applicable statutes.

(2) We concur and have established policies to implement this portion of Recommendation 1.

Recommendation 2: Improve the Change in Ownership program by:

(1) correcting conflicting information provided in the final request for information letter and the subsequent penalty notification letter, and

(2) correctly calculating penalties as required by section 482(a).

(1) We concur in part with this portion of Recommendation 2. We will revise our final request letter and our penalty notification letter to remove language referring to an "application" for penalty abatement. We disagree with the Board's assertion that language referring to a "questionnaire" is misleading or confusing. The final request letter clearly states that the enclosed document, the Change in Ownership Statement (BOE 502-AH), is what must be returned to avoid the penalty. The BOE 502-AH is the <u>only</u> document included with the final request letter. There is nothing to confuse the recipient, there is only the Board-prescribed form included which when completed and returned satisfies the statutory requirement.

The Board states that "the abatement process should be clearly explained...." When property owners receive the penalty notification letter, they must contact the Assessor's Office to get a copy of the BOE 502-AH to file and thus meet the abatement requirement. When they contact us, we fully explain the abatement process, we verify their mailing address, and we provide a personal contact point if for some reason the penalty is not removed timely or if the property owner has further questions. We find that having a conversation with the property owner results in better and more timely compliance with the filing requirements. We feel it is necessary and appropriate to instruct the property owner to contact us for information on complying with the requirements of Section 483.

(2) We concur that in the past, some penalties were calculated incorrectly by the Auditor's office. We conducted a thorough review of the most current penalty assessments (penalized in January 2018) and determined that they are all correctly calculated based on the new base year value not on the following year's factored base year value. We have conferred with the Auditor-Controller and confirmed that they have the proper procedure in place. It is the opinion of the Auditor-Controller that the error discovered by the survey team may have been the result of inexperienced staff who have now received additional training.

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RECOMMENDATION 3: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469

Response:

We concur. We hired 2 new auditor-appraisers last year and is actively hiring additional auditors this year with the goal to reach full staff status within the next 12 months.

RECOMMENDATION 4: Properly classify fixed machinery and equipment as fixtures for service station assessments

Response:

We concur. This was a system error in our database. The Assessor has updated the fixture allocation percentage for accounts classified as Service Stations on our database and a % of reported M&E costs and full values will be allocated as PSI (LHI-Fixtures) going forward.

RECOMMENDATION 5: Improve the business equipment valuation program by: (1) properly valuing structural leasehold improvements reported on the BPS, and (2) issuing supplemental assessments for structural leasehold improvements assessed on the unsecured roll.

Response:

Partially agree. Our office believes that some improvements related to a business can be classified as LHI-Fixtures as defined under Property Tax Rule 463(c). In instances where our office determined that the improvements are structural new construction, we will either established a base year value and factored using the inflation factor table in subsequent years or referred the new construction to the commercial and industrial division for further analysis and assessment.

As for making supplemental assessments. Our office will not issue any supplemental assessments for improvements that are classified as LHI-Fixtures but will do so for any newly constructed structural improvements.