MONTEREY COUNTY SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY

DECEMBER 2018

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT
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December 31, 2018

No. 2018/069

TO COUNTY ASSESSORS:

MONTEREY COUNTY
SUPPLEMENTAL ASSESSMENT PRACTICES SURVEY

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

Mr. Vagnini 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

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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 Monterey County Assessor/Recorder/Clerk's Office.[1]

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 Monterey County Board of Supervisors, Grand Jury, and Assessment Appeals Board and the Monterey County Board of Supervisors and Grand Jury. 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 Stephen L. Vagnini, Monterey County Assessor/Recorder/Clerk, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

[1] This review covers only the assessment functions of the assessor's office.

OBJECTIVE

The survey shall "…show the extent to which assessment practices are consistent with or differ from state law and regulations."[2] 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[3] 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 BOE has elected to conduct a supplemental survey for Monterey County. The supplemental survey includes a review of the recommendations contained in the prior survey report, the assessor's written response to the recommendations, the assessor's current records pertaining to those recommendations, and interviews with the assessor and his staff. This supplemental survey is made to determine the extent to which the assessor has implemented the recommendations contained in the prior survey report and to identify areas where problems still exist.

This supplemental survey examined the assessment practices of the Monterey County Assessor's Office for the 2016-17 assessment roll. 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.

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[2] Government Code section 15642.

[3] 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.

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.

In the October 2013 Monterey County Assessment Practices Survey report, there were a total of 10 recommendations. Two were in the area of administration, six were related to real property assessment, and two were related to personal property and fixture assessments. This report reflects the BOE's findings in its supplemental survey of the Monterey County Assessor's Office.

EXECUTIVE SUMMARY

As stated in the Scope of Supplemental Assessment Practices Surveys, the BOE has elected to perform a supplemental survey of Monterey County, addressing only the recommendations from the prior survey and whether the assessor has implemented those recommendations.

In the area of administration, we reviewed the prior recommendation identified in the assessor's staff property and activities and exemptions programs.

In the area of real property assessment, we reviewed the prior recommendations identified in the assessor's change in ownership, new construction, declines in value, California Land Conservation Act, and taxable possessory interest assessment programs.

In the area of personal property and fixtures, we reviewed the prior recommendations identified in the assessor's audit and business property statement programs.

OVERVIEW OF MONTEREY COUNTY

Monterey County is located in the western part of California. The county encompasses a total area consisting of 3,280.59 square miles of land area and 490.63 square miles of water area. Created in 1850, Monterey County was one of California's original 27 counties. Monterey County is bordered by Santa Cruz County to the North, San Benito County to the North and East, Fresno and Kings Counties to the east, San Luis Obispo County to the south, and the Pacific Ocean to the West.

As of the 2010 census, Monterey County had a population of 415,057. There are 12 incorporated cities in Monterey County. Those cities include Carmel-By-The-Sea, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Pacific Grove, Salinas, Sand City, Seaside, and Soledad. The county seat is Salinas.

The Monterey County local assessment roll ranks 20th of the 58 county assessment rolls in California. The total assessed roll value has increased by an annual average of 4.4 percent over the last five years.[4]

[4] Statistics provided by California State Board of Equalization Annual Report, Table 7 – Assessed Value of County-Assessed Property Subject to General Property Taxes, 2012-13 through 2016-17.

ADMINISTRATION: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our October 2013 Assessment Practices Survey Report that relate to administrative policies and procedures and the assessor's response to the recommendations. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our supplemental survey fieldwork.

Staff Property and Activities

RECOMMENDATION 1: Develop written procedures that address the assessment of staff-owned property.

Original Findings:

We found the assessor has only informal policies and no written procedures in place to address the assessment of staff-owned properties. While we did not find any problems with the assessor's handling of staff-owned properties, the assessor should have written procedures in place to fully address the assessment of real and personal property in which staff in the assessor's office holds an interest.

Original Assessor's Response:

We concur. We have developed written procedures that address staff-owned properties.

Current Status:

We found that the assessor has implemented this recommendation. The assessor has developed guidelines and procedures for handling staff owned property and conflicts in interest. The procedures require all employees to annually sign and submit an Employee Property Activity Report that discloses any conflict or potential conflict of interest. All designated employees are also required to annually submit a *Statement of Economic Interest* (Form 700) in addition to the Employee Property Activity Report.

The developed procedures specify that employees must not participate in the processing, determination, or adjustment of the assessed valuation for any property that the employee may directly or indirectly financially benefit and also require the assistant assessor to track and perform all valuation procedures for employee owned property. The assessor is also in the process of hiring a former staff member to exclusively value staff property as a third party when the need arises.

Exemptions

RECOMMENDATION 2: Improve the administration of the disabled veterans' exemption by correctly calculating the amount of an exemption to be granted for a late-filed claim on the low-income provision of the disabled veterans' exemption.

Original Findings:

When applying late-filing provisions for a late-filed claim on the low-income provision of the disabled veterans' exemption, we found that the assessor incorrectly calculates the amount of the partial exemption to be granted for the property. The assessor calculates the partial exemption based on the entire amount of the eligible exemption rather than only the portion that is over the basic exemption.

Original Assessor's Response:

We concur. We have adjusted our procedures to grant the claimant the proper amount of the exemption.

Current Status:

We found that the assessor has implemented our recommendation and now correctly calculates late-filed low-income disabled veterans' exemptions. This is evidenced by examining several late-filed claims which document that the assessor now calculates the partial exemption based on the portion that is over the basic exemption amount rather than the entire amount of the eligible exemption.

ASSESSMENT OF REAL PROPERTY: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our October 2013 Assessment Practices Survey Report that relate to the assessment of real property and the assessor's response to the recommendations. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our supplemental survey fieldwork.

Change in Ownership

RECOMMENDATION 3: Correctly implement the penalty process in accordance with section 482(a).

Original Findings:

We found it is the assessor's current practice not to apply penalties when a property owner fails to return a COS [Change in Ownership Statement] or fails to return the COS timely.

Original Assessor's Response:

We concur. Our office does not currently send out Change of Ownership Statements, however, we do send out an "in house" Sales Questionnaire that meets the requirements under section 482(a); therefore, we did not see a need to implement the penalty process. We will implement a penalty process in accordance with section 482(a).

Current Status:

The assessor has not implemented this recommendation. It is the assessor's current practice to not apply COS penalties when a property owner fails to return a COS or fails to return the COS timely.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 failed to do so within 90 days from the date of a written request by the assessor, a specific penalty shall be applied. When a property owner fails to return the COS timely, the assessor should notify the property owner of the penalty being applied and inform them of the abatement process as described in section 483(a). Monterey County has not adopted an ordinance pursuant to section 483(b), allowing the assessor to automatically abate penalties.

The assessor's current practice of not applying penalties to property owners who fail to file a COS by the filing deadline is contrary to statute and results in an unequal treatment of taxpayers.

We discovered during the course of our survey an instance where the county applied a COS penalty without first making a written request for the taxpayer to fill out a COS. In this instance, the change in ownership was due to a death of a property owner. Though section 480(b) requires the personal representative to file a COS within 150 days of a decedents death, section 482 mandates that the assessor must make a written request for the filing and the 90 day period from the mailing of this request must occur before a penalty can be applied as specified in section 482.

Section 482 specifies that if a person or legal entity, fails to file a COS within 90 days from the date a written request is mailed by the assessor a specific penalty shall apply.

Failure to make a written request for a taxpayer to file a COS and properly allowing 90 days for filing prior to applying a penalty conflicts with statute and results in inequitable treatment of taxpayers.

During our review of the assessor's practices under this topic we also found it is the assessor's current practice not to apply penalties when a legal entity fails to timely file BOE-100-B due to a change in control or ownership in accordance with section 482(b).

Section 482(b) states that if a person or legal entity required to file a statement described in section 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership of the legal entity, or (2) the date of a written request by the BOE, a specific penalty shall be applied. Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and any entities under its ownership control. Discovery of these types of changes in ownership is difficult for assessors, because ordinarily there is no recorded document evidencing a transfer of an ownership interest in a legal entity.

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d) and specify if a penalty applies for listed properties.

The assessor's current practice of not applying penalties to properties owned by legal entities who fail to file a BOE-100-B or fail to file a BOE-100-B by the deadline is contrary to statute and results in an unequal treatment of taxpayers.

RECOMMENDATION 4: Properly apply the provisions of section 63.1(j) when processing section 63.1 claims for exclusion.

Original Findings:

We found in accordance with Monterey County Ordinance No. 4224, it is the assessor's current practice to charge a $50 processing fee if a property owner does not submit a

section 63.1 claim form at the same time a document is recorded that may qualify for the exclusion. In addition, Monterey County has passed and adopted a board order allowing the assessor to charge a $175 processing fee if a transferee fails to return a certified claim for exclusion pursuant to section 63.1(j)(2). The assessor's second notice does not inform the transferee that this one-time processing fee will be charged if the claim for exclusion is received after 60 days from the date of the second notice. Further, even though the board order adopted by the board of supervisors authorizes the assessor to charge fees pursuant to section 63.1(j)(2), the assessor's website indicates that the $175 fee will be charged if the taxpayer does not complete and submit the claim form within the 105-day statutory period, which is inconsistent with section 63.1(j)(2).

Original Assessor's Response:

We concur. We have made corrections to our policies and have discontinued our $50 processing fee as allowed by Monterey County's Ordinance No. 4224. This fee was enacted by Monterey County prior to the implementation of section 63.1(j)(2) and has now been discontinued.

Current Status:

We found that the assessor has implemented this recommendation. The assessor has discontinued their practice of charging a $50 processing fee if a property owner does not submit a section 63.1 claim at the same time a document is recorded that may qualify for the exclusion. In addition, the assessor's fee schedule has been updated on the website and is now consistent with section 63.1(j)(2) which indicates the $175 processing fee will be charged if the claim form has not been filed within 60 days of the second notice. Additionally, the assessor has changed the language on the second notice to conform to section 63.1(j)(2) to indicate the one-time processing fee will be charged if the claim for exclusion is received after 60 days from the date of the second notice.

New Construction

RECOMMENDATION 5: Improve the new construction program by: (1) substantiating new construction discounts on residential swimming pools, and (2) valuing construction in progress (CIP) at current market value as of the lien date pursuant to section 71.

(1) Substantiate new construction discounts on residential swimming pools.

Original Findings:

We found it is the assessor's policy to assess newly constructed residential swimming pools at a discounted percentage of historical cost. The assessor indicated that pool values vary depending on the region and that the assessed values of pools are based on market studies. However, the assessor does not have a current pool study or any market evidence listed in the property records to justify making these percentage adjustments.

Original Assessor's Response:

We concur. We will substantiate new construction discounts on residential pools.

Current Status:

We found that the assessor has implemented this recommendation. It is the assessor's current practice to assess swimming pools using the construction cost based on the Assessors' Handbook 531, reviewing the owner/contractor cost estimate and using appraiser judgment based on the neighborhood and the uniqueness of the pool to establish a value to enroll. The assessor reviews all pool cost estimates submitted with the cost estimate from the AH 531 and determines which cost estimate is best supported by the market.

(2) Value construction in progress (CIP) at current market value as of the lien date pursuant to section 71.

Original Findings:

In our prior survey, we found that the assessor does not establish the fair market value of CIP on each lien date. Instead, the assessor first estimates the percentage of completion of the project at lien date and then multiplies that percentage by the value reported on the permit.

Original Assessor's Response:

We concur. We will value construction in progress (CIP) at current market value as of the lien date pursuant to section 71.

Current Status:

We found that the assessor has implemented this recommendation. The assessor has changed their prior practice and is now establishing the fair market value of CIP on each lien date by utilizing the Assessors' Handbook 531 for cost estimates, using the contractors building estimates or by costs noted on the permits.

Declines in Value

RECOMMENDATION 6: Improve the declines in value program by: (1) including documentation in the property record to support market value conclusions for properties experiencing a decline in value, and (2) annually reviewing all properties in a decline-in-value status pursuant to section 51(e).

(1) Include documentation in the property record to support market value conclusions for properties experiencing a decline in value.

Original Findings:

We found a large number of decline-in-value assessments that had no support for the value estimates determined and enrolled. Although the assessor maintains a main file containing comparable sales data, there was no data found in many of the appraisal records we reviewed to support the values enrolled. According to staff, each appraiser keeps documentation at their desk and the necessary information could be produced, if needed.

Original Assessor's Response:

We concur. Although Monterey County has always had the documentation to support market value conclusions for properties experiencing a decline in value we did not always have this information available in the actual property record. Through the implementation last year of a mass appraisal system we have now corrected this problem and backup information is now much more readily available.

Current Status:

We found that the assessor has implemented this recommendation. An assessment evaluation system is utilized to annually review traditional single-family residences. The system runs comparables for the subject property and a copy of the comparables are placed in the property file. For commercial properties, comparables and/or an income analysis are placed in the property file.

(2) Annually review all properties in a decline-in-value status pursuant to section 51(e).

Original Findings:

We found a large number of properties in decline-in-value status that had not been reviewed in several years. Section 51(e) provides that it is not necessary for the assessor to make an annual reappraisal of all assessable property to determine if it qualifies for a decline-in-value assessment; however, section 51(e) does provide that once the base year value of real property is lowered to reflect a decline in value, it must be annually reappraised until its market value exceeds its FBYV.

Original Assessor's Response:

Monterey County has in the past made every attempt to annually review all properties in a decline-in-value status and will continue to do so.

Current Status:

We found that the assessor has implemented an assessment evaluation system that annually reviews traditional single-family residences and condos that are currently in a decline in value status. We also reviewed a number of commercial, multi-family residences, mobile homes and vacant land and concluded that they are annually reviewing all types of property that are experiencing a decline in value.

California Land Conservation Act Property

RECOMMENDATION 7: Improve the CLCA property program by using current well replacement costs when deriving a charge for recapture.

Original Findings:

We found the assessor uses a fixed replacement cost for all irrigation wells in vineyards and orchards when calculating the recapture charge of the well to be deducted from the income stream. In addition, the assessor fails to deduct a charge for maintenance expenses for the well that are incurred by the property owner.

Using a fixed replacement cost new for all wells does not appropriately account for the value of the irrigation wells. Using a standard charge does not reflect the value of the individual well. The recommended method for estimating the "return on" the investment in the well to be deducted from the income stream is to multiply the estimated replacement cost new of the subject well by the sinking fund factor (SFF) that corresponds to the economic life of the well and the appropriate rate of return or interest rate.

Original Assessor's Response:

We respectively disagree. Monterey County uses a $12/ac charge for the well when calculating for CLCA purposes. The Assessor also does not charge for maintenance expenses for the well that is incurred by the property owner. The majority of the irrigation wells throughout the county are tenant operated and all expenses are paid by the lessee. For owner-operated wells, the Assessor uses a fixed replacement cost new for all wells. The supposition is that a well has a definite life. Wells in this county have been known to produce long after a pre-determined life; therefore, routine maintenance is not considered and is not a charge (deduction) from the income stream. The prudent farmer is always mindful of the irrigation well and will continually provide the necessary maintenance to keep at maximum performance. As a result, the Assessor does not consider a new base value upon the replacement well. The Assessor respectfully contends

the practice of using a fixed replacement cost for all wells is not a viable approach and would cause the Assessor to enroll incorrect assessments.

Current Status:

We found the assessor has not implemented this recommendation.

The assessor uses a fixed replacement cost for all irrigation wells in vineyards and orchards when calculating the recapture charge of the well to be deducted from the income stream. In addition, the assessor fails to deduct well maintenance expenses that are incurred by the property owner.

Using a fixed replacement cost for all wells does not appropriately account for the value of the individual irrigation wells. The recommended method for estimating the "return of" the investment in the well to be deducted from the income stream is to multiply the estimated replacement cost new of the subject well by the SFF that corresponds to the economic life of the well and the appropriate rate of return or interest rate.

In addition, Assessors' Handbook Section 521, *Assessment of Agricultural and Open Space Properties* (AH 521), provides that a property owner may incur certain expenses in the maintenance of improvements necessary to preserve the property's income stream. Maintenance expenses are a legitimate deduction from the income generated by the real property when they are incurred by the property owner. A well often requires maintenance to continually produce the volume of water necessary to grow the irrigated crops that maximize income. The appraiser should determine whether the property owner is responsible for the maintenance expense of the well and, if so, deduct a charge for well maintenance when such an expense is applicable.

The assessor's practice of using a fixed replacement cost for all wells and not deducting a charge for the well maintenance expense incurred by the property owner may cause the assessor to enroll incorrect assessments.

Taxable Possessory Interests

RECOMMENDATION 8: Improve the taxable possessory interest program by: (1) obtaining current copies of all lease agreements or permits for taxable possessory interests, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (3) reappraising taxable possessory interests in compliance with section 61,

and (4) properly issuing supplemental assessments for taxable possessory interests.

(1) Obtain current copies of all lease agreements or permits for taxable possessory interests.

Original Findings:

We found that the majority of the taxable possessory interest files we reviewed did not contain copies of leases for the interests being assessed. The assessor relies on tenant lists, historical information, information obtained from Monterey County, or information obtained on the BOE-502-P, Possessory Interests Annual Usage Report to value taxable possessory interests. Copies of leases are not typically requested. In addition, we found the files were lacking in documentation to support the economic rents and discount rates used in the appraisal process.

Original Assessor's Response:

We concur. We have commenced efforts to obtain current copies of all lease agreements and permits for possessory interests.

Current Status:

We found that the assessor has implemented this recommendation. The assessor is now actively requesting copies of leases along with other lease related information from various public entities.

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

Original Findings:

We reviewed several taxable possessory interests with stated terms of possession and found several instances where the assessor did not periodically review these taxable possessory interests for possible declines in value. Instead, the assessor either enrolled the factored base year value on the lien date or left the enrolled value unchanged on the roll for several years.

Original Assessor's Response:

We concur. We will continue to periodically review all taxable possessory interests with stated terms of possessions for declines in value.

Current Status:

We found that the assessor has not implemented this recommendation.

We reviewed several taxable possessory interests with stated terms of possession and found several instances where the assessor did not periodically review taxable possessory interests for possible declines in value. Instead, the assessor enrolled the factored base year value on the lien date.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "…the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on the lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

(3) Reappraise taxable possessory interests in compliance with section 61.

Original Findings:

In our prior survey, we found that the assessor does not consistently reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used to value the taxable possessory interest.

Original Assessor's Response:

We concur. We will consistently appraise all possessory interest in compliance with section 61.

Current Status:

We found that the assessor has not implemented this recommendation.

We found that the assessor does not consistently reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used to value the taxable possessory interest.

Section 61(b) provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property for any term. Section 61(b)(2) provides that for renewals, the assessor shall, at the end of the initial term of possession used by the assessor, establish a new base year value based upon a new reasonably anticipated term of possession.

By not revaluing taxable possessory interests at the end of the reasonably anticipated term of possession, the assessor is not in compliance with statutory provisions and may enroll inaccurate assessments.

(4) Properly issue supplemental assessments for taxable possessory interests.

Original Findings:

In our prior survey, we discovered several instances in which the assessor failed to issue a supplemental assessment upon a change in ownership of a taxable possessory interest. We also found several instances in which the assessor had incorrectly calculated the supplemental assessment upon a change in ownership of a taxable possessory interest by offsetting the fair market value against the prior value on the roll.

Original Assessor's Response:

We respectively disagree. We believe that the Board's recommendation pertaining to supplemental assessments when implemented results in double assessments of the same possessory interest in certain instances.

Current Status:

We did not follow up on the supplemental assessment of taxable possessory interests during this survey engagement.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES: PRIOR RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our October 2013 Assessment Practices Survey Report that relate to the assessment of personal property and fixtures and the assessor's response to the recommendations. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our supplemental survey fieldwork.

Audit Program

RECOMMENDATION 9: Improve the audit program by: (1) requiring a situs inspection as a standard component of the audit process, and (2) sending a Notice of Proposed Escape Assessment as required by section 531.8.

(1) Require a situs inspection as a standard component of the audit process.

Original Findings:

We found that for the majority of the audits we reviewed, the completed audit checklists included in the files indicated that no situs inspections had been conducted. According to the assessor's written procedures, situs inspections on businesses other than typical retail or office should be conducted only if the auditor-appraiser deems it necessary.

Original Assessor's Response:

We concur. We will require a situs inspection as a standard component of our audit process.

Current Status:

We found that the assessor has addressed this recommendation. The assessor now regularly conducts audit inspections as part of its general practices. The assessor has formally discussed the requirement of situs inspections and included them as a standard component of the audit process. In addition, the sample audits we reviewed all indicated that situs inspections are conducted as part of regular business practices.

(2) Send a *Notice of Proposed Escape Assessment* as required by section 531.8.

Original Findings:

We found that the assessor does not send taxpayers a *Notice of Proposed Escape Assessment* as required by section 531.8. Instead, the assessor sends an audit summary

letter, along with a detailed schedule indicating the findings and the proposed changes in taxable value for the years affected. The letter contains incorrect information in regards to the appeal process, stating that the taxpayer may file an assessment appeal within 60 days of receipt of the letter when in fact the taxpayer has within 60 days from the date of the mailing printed on the tax bill or the postmark, whichever is later, to file an appeal on the escape assessment pursuant to section 534(c)(3). In addition, the letter does not contain the required heading as stated in section 531.8.

Original Assessor's Response:

We concur. We have always sent a Notice of Proposed Escaped Assessment as required by section 531.8 but discontinued the practice for only a short period of time in 2010 and subsequently corrected and enforced the practice in 2011.

Current Status:

We found that the assessor has implemented this recommendation. The assessor now mails a Notice of Proposed Escaped Assessment letter when audit findings reveal escaped taxable property in accordance with section 531.8. We further verified that the Notice of Proposed Escaped Assessment letter utilized by the assessor is in the prescribed format and complies with the requirements of section 531.8 in all respects.

Business Property Statement Program

RECOMMENDATION 10: Ensure leased equipment reported by the lessee is cross-checked against lessor enrollments during processing.

Original Findings:

We found that in Monterey County, the assessor has written procedures in place directing processing staff to cross-check leased equipment reported on the lessee's business property statement (BPS) against lessor enrollments and to make notations documenting their review. However, we examined several processed BPSs with leased equipment declared by lessees and found that in the vast majority of cases, no notations were present indicating that the reported leased equipment was reviewed to ensure proper enrollment.

Original Assessor's Response:

We concur. We will ensure that all leased equipment is cross-checked against lessor enrollments during processing.

Current Status:

We found that the assessor has implemented this recommendation. The assessor now regularly cross-checks reported leased equipment appearing on Part III of lessee's BPSs against lessor enrollments to enhance the discovery of taxable business property. Furthermore, the assessor adequately documents this practice by making the appropriate

notations on processed BPS's and has enhanced this procedure by maintaining a database of lessors sited and enrolled in the county.

APPENDIX A: STATISTICAL DATA

Statistical data is provided in compliance with section 15642 of the Government Code.[5]

Table 1: Assessment Roll

The following table displays pertinent information from the 2016-2017 assessment roll.[6]

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	$28,506,584,319
	Improvements	$30,031,946,093
	Personal Property	$ 530,879,658
	Total Secured	$59,069,410,070
Unsecured Roll	Land	$ 127,581,585
	Improvements	$ 952,606,064
	Personal Property	$ 1,288,409,228
	Total Unsecured	$ 2,368,596,877
Exemptions[7]		($ 2,324,854,685)
	Total Assessment Roll	$59,113,152,262

Table 2: Change in Assessed Values

The following table summarizes the change in assessed values over recent years:[8]

YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2016-17	$59,113,152,000	4.6%	5.5%
2015-16	$56,531,195,000	5.9%	6.0%
2014-15	$53,359,519,000	6.0%	6.2%
2013-14	$50,334,887,000	3.7%	4.3%
2012-13	$48,537,582,000	1.3%	1.4%

[5] Additional statistical data may be found in *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices at:* http://boe.ca.gov/proptaxes/reports.htm
[6] Statistics provided by BOE-822, *Report of Assessed Values By City*.
[7] The value of the Homeowners' Exemption is excluded from the exemptions total.
[8] California State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from $4,737,786 in 2012-13 to $5,795,624 in 2016-17.

As of the date of our survey, the assessor had 53 budgeted permanent staff. This included the assessor, assistant assessor, 2 supervising appraisers, 1 auditor appraiser manager, 1 department IS Manager, 22 real property appraisers, 5 business property auditor-appraisers, 2 cadastral draftspersons, 1 computer programmer, 1 technical/professional, and 16 support staff.

The following table identifies the assessor's budget and staffing over recent years:[9]

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2016-17	$5,795,624	2.2%	53
2015-16	$5,666,965	10.8%	55
2014-15	$5,115,147	10.1%	54
2013-14	$4,644,902	-2.0%	50
2012-13	$4,737,786	-4.8%	50

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:[10]

YEAR	ASSESSMENT APPEALS FILED
2016-17	507
2015-16	553
2014-15	619
2013-14	534
2012-13	736

[9] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.
[10] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:[11]

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2016-17	549	$1,980,117,016
2015-16	529	$1,861,958,643
2014-15	534	$1,797,668,890
2013-14	511	$1,698,372,376
2012-13	468	$1,614,984,932

Table 6: Change in Ownership

The following table shows the total number of transfer documents received and the total number of reappraisals due to changes in ownership processed in recent years:[12]

YEAR	TOTAL TRANSFER DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2016-17	15,414	6,416
2015-16	14,667	8,232
2014-15	13,802	6,279
2013-14	15,379	8,597
2012-13	17,245	7,412

[11] Statistics provided by BOE-802, *Report on Exemptions*.
[12] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

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:[13]

YEAR	TOTAL BUILDING PERMITS RECEIVED	NEW CONSTRUCTION ASSESSMENTS
2016-17	8,246	937
2015-16	4,690	1,166
2014-15	7,297	470
2013-14	8,527	418
2012-13	8,800	447

Table 8: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:[14]

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2016-17	12,656
2015-16	15,050
2014-15	19,731
2013-14	28,530
2012-13	34,135

[13] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.
[14] Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Monterey County

Chief

David Yeung

Survey Program Director

Diane Yasui	Manager, Property Tax

Survey Team Supervisor:

Andrew Austin	Supervisor, Property Tax

Survey Team Lead:

Gary Coates	Associate Property Appraiser

Survey Team:

Tina Baxter	Associate Property Appraiser
Cyrus Haze Ghazam	Associate Property Auditor-Appraiser
Amanda Lopez	Assistant Property Appraiser
Dany Lunetta	Associate Governmental Program Analyst

APPENDIX C: 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 Monterey County Assessor's response begins on the next page. The BOE has no comments on the response.

MONTEREY COUNTY

OFFICE OF THE ASSESSOR

(831) 755-5035 - P.O. BOX 570 - GOVERNMENT CENTER - SALINAS, CALIFORNIA 93902
(MONTERREY PENNINSULA RESIDENTS MAY DIAL 647-7719)

STEPHEN L. VAGNINI
ASSESSOR

November 28, 2018

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

Subject: Monterey County Supplemental Assessment Practices Survey Report

Dear Mr. Yeung;

Pursuant to Section 15645 of the California Government Code, I am pleased to respond to the findings and recommendations contained in the State Board of Equalization's 2018 Supplemental Assessment Practices Survey Report of Monterey County. I have reviewed your draft and fully agree with your findings. There were ten prior recommendations, of which seven have been fully implemented. We were found to be in compliance with these seven recommendations as noted in the Current Status sections of your report.

For **Recommendation 3**, we are now implementing this recommendation by sending out Change of Ownership Statements when warranted and by applying COS penalties when a property owner fails to return the COS timely. For parts 2 and 3 of **Recommendation 8** we are diligently working and devoting more resources in order to be in compliance with your recommendations. For **Recommendation 7**, as discussed in our comments contained within the survey, we respectively disagree with the State's recommendation.

I would like to sincerely thank the Board of Equalization survey team members for the professional, efficient and courteous manner in which they conducted the survey. Our office values the feedback and comments which will prove to ensure we are carrying out our duties in the best manner possible.

I would also like to take this opportunity to acknowledge the hard work and dedications of the staff of the Monterey County Assessor's Office and thank them for their commitment to excellence in serving the public.

Sincerely yours,

s

Stephen L. Vagnini
Monterey County Assessor/County Clerk Recorder

RECOMMENDATION 3:

Correctly implement the penalty process in accordance with section 482 (a).

Assessor's Response:

We have subsequently implemented this recommendation and we are now sending out Change of Ownership Statements when warranted. Moreover, we are applying COS penalties when a property owner fails to return the COS timely. We have worked with the Auditor-Controller's Office to determine how penalties are to be assessed.

RECOMMENDATION 7:

Improve the CLCA property program using current well replacement costs when deriving a charge for recapture.

Assessor's Response:

We respectively disagree. Monterey County has historically contended that their current practice accounts for the charge for recapture of irrigation wells. The Assessor does not make a deduction for maintenance expenses for irrigation wells on CLCA properties that are not owner operated. The majority of the irrigation wells throughout the County of Monterey are tenant operated and all expenses are paid by the lessee.

For owner-operated wells, the Assessor uses a fixed replacement cost new for all wells. Monterey County uses a $12-13/acre charge for owner-operated irrigation wells when calculating for CLCA purposes. It is the State's premise that irrigation wells have a definite life, however the majority of wells in Monterey County have been known to produce long after a pre-determined life; therefore the use of a sinking fund factor (SFF) does not necessarily correspond to the economic life of the well . The Assessor respectfully contends the practice of using a fixed replacement cost for all wells is therefore not a viable approach and would cause the Assessor to enroll incorrect assessments.

RECOMMENDATION 8:

Improve the taxable possessory interest program by (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value (3) reappraising taxable properties in compliance with section 61.

Assessor's Response:

(2) We concur. Commencing in 2018 the Assessor's Office began reviewing approximately 15% of the taxable possessory interests in Monterey County. For the 2019 lien date Monterey County will devote more resources to the review of TPIs and will strive to implement a cyclical review of 25% or greater annually.

(3) We concur. Commencing in 2019 Monterey County will devote more resources to ensure that all taxable possessory interests are reappraised at the end of a reasonably anticipated term of possession. A concerted effort will be made to review and establish reasonably anticipated terms based on an analysis of historic market trends.