

# SANTA CLARA COUNTY ASSESSMENT PRACTICES SURVEY

**JUNE 2018**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2018/025

June 7, 2018

TO COUNTY ASSESSORS:

**SANTA CLARA COUNTY  
ASSESSMENT PRACTICES SURVEY**

A copy of the Santa Clara 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 and cities and 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 Lawrence E. Stone, Santa Clara 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 Santa Clara County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from January through February 2017. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Stone 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

# TABLE OF CONTENTS

<b>INTRODUCTION.....</b>	<b>1</b>
<b>OBJECTIVE .....</b>	<b>2</b>
<b>SCOPE AND METHODOLOGY .....</b>	<b>2</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>4</b>
<b>OVERVIEW OF SANTA CLARA COUNTY .....</b>	<b>5</b>
<b>FINDINGS AND RECOMMENDATIONS .....</b>	<b>6</b>
<b>ASSESSMENT OF REAL PROPERTY .....</b>	<b>7</b>
CHANGE IN OWNERSHIP.....	7
NEW CONSTRUCTION.....	8
CALIFORNIA LAND CONSERVATION ACT PROPERTY.....	10
MINERAL PROPERTY .....	12
<b>ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....</b>	<b>14</b>
AUDIT PROGRAM .....	14
BUSINESS EQUIPMENT VALUATION .....	15
<b>APPENDIX A: STATISTICAL DATA .....</b>	<b>16</b>
TABLE 1: ASSESSMENT ROLL .....	16
TABLE 2: CHANGE IN ASSESSED VALUES.....	16
TABLE 3: GROSS BUDGET AND STAFFING .....	17
TABLE 4: ASSESSMENT APPEALS.....	17
TABLE 5: EXEMPTIONS – WELFARE .....	18
TABLE 6: EXEMPTIONS – DISABLED VETERANS .....	18
TABLE 7: CHANGE IN OWNERSHIP .....	19
TABLE 8: NEW CONSTRUCTION .....	19
TABLE 9: DECLINES IN VALUE .....	20
TABLE 10: AUDITS.....	21
<b>APPENDIX B: PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS .....</b>	<b>22</b>
<b>APPENDIX C: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP.....</b>	<b>31</b>
<b>APPENDIX D: RELEVANT STATUTES AND REGULATIONS .....</b>	<b>32</b>
<b>ASSESSOR'S RESPONSE TO BOE'S FINDINGS .....</b>	<b>33</b>

## **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 Santa Clara 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 Santa Clara 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 Lawrence E. Stone, Santa Clara 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."<sup>1</sup> 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<sup>2</sup> 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 2016-17 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

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<sup>1</sup> Government Code section 15642.

<sup>2</sup> 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.

disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.<sup>3</sup>

Our survey methodology of the Santa Clara 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 Santa Clara 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, 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 California Land Conservation Act (CLCA) property, and 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.

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<sup>3</sup> 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>.

## **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 Santa Clara County Assessor's Office for the 2016-17 assessment roll and followed up on recommendations from our prior survey of this county. In our 2014 assessment practices survey of Santa Clara County, we made nine 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, we reviewed budget and staffing, workload, assessment appeals, and the exemptions programs. The assessor is effectively managing these areas.

In the area of real property assessment, the assessor has effective programs for declines in value. However, we made recommendations for improvement in the change in ownership, new construction, California Land Conservation Act (CLCA) property, and mineral property programs.

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. Although we made a recommendation under the audit topic, the assessor has a sound program for conducting the required audits.

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 Santa Clara County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2016-17 assessment roll indicated an average assessment ratio of 99.48 percent, and the sum of the absolute differences from the required assessment level was 0.54 percent. Accordingly, the BOE certifies that Santa Clara County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

## **OVERVIEW OF SANTA CLARA COUNTY**

Santa Clara 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. Based on 2016 United States Census Bureau Data, Santa Clara County had a population of 1,919,402 and the county encompassed a total land area of 1,290.10 square miles of land area and 13.97 square miles of water area.



Created in 1850, Santa Clara County was one of California's original 27 counties. Santa Clara County is bordered by Alameda County to the north, San Mateo and Santa Cruz Counties to the west, Stanislaus and Merced Counties to the east, and San Benito County to the south.

There are 15 incorporated cities in Santa Clara County. Those cities include Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale. The County seat is San Jose.

The Santa Clara County local assessment roll ranks 4th of the 58 county assessment rolls in California. The total assessed roll value has increased by an annual average of eight percent over this survey period.<sup>4</sup>

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<sup>4</sup> Statistics provided by Table 7 – Assessed Value of County-Assessed Property Subject to General Property Taxes, 2016-17.



## **FINDINGS AND RECOMMENDATIONS**

As noted previously, our review concluded that the Santa Clara 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:** Correctly calculate LEOP penalties applied to the new base year value of the property as required by section 482(b). .....8
- RECOMMENDATION 2:** Obtain required claim forms from property owners prior to granting new construction exclusions as required by section 74.5(d). .....9
- RECOMMENDATION 3:** Use an income approach for capitalizing restricted tree and vine income as specified by section 423. ....11
- RECOMMENDATION 4:** Improve the mineral assessment program by:  
(1) calculating the current market value of the mineral appraisal unit for all properties each year, and  
(2) measuring declines in value on the appraisal unit.....12
- RECOMMENDATION 5:** Enroll all escape assessments discovered during the course of an audit unless there is an ordinance in place prohibiting escape assessments under a certain amount. ....14
- RECOMMENDATION 6:** Apply the mobile agricultural percent good factors, prescribed on Table 6 of the AH-581, when valuing mobile agricultural equipment. ....15

## 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.<sup>5</sup>

### **Legal Entity Ownership Program (LEOP)**

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. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and, hence, either do or do not constitute a change in ownership of the real property owned by the entity. 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). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or

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<sup>5</sup> 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](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>.

(2) the date of written request by the BOE.<sup>6</sup> The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

The assessor discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, business property statements filed by the legal entity, newspaper articles, appraiser and staff referrals, and information provided by the public.

All real property held by listed entities within the county on the LEOP reports from BOE are identified and unless excluded, are reviewed by the property transfer unit (PTU) to determine if the property may require reassessment due to a change in control or change in ownership. In addition, a name search is conducted to determine if there are potential properties in Santa Clara County under the same ownership. The PTU makes any necessary changes and inputs the data into the computer system. Once a change in control or ownership of a legal entity has been processed as a reappraisable event, the information is sent to an appropriate appraiser for valuation.

Our review shows the assessor's office does a thorough job reviewing LEOP reports and reassessing all property interests identified on BOE-100-Bs, as well as additional properties owned by the entity not reported on the form. However, we did recognize one area in need of improvement.

**RECOMMENDATION 1:** Correctly calculate LEOP penalties applied to the new base year value of the property as required by section 482(b).

We found instances where the assessor calculated LEOP penalties to properties that have undergone a change in control or change in ownership by applying a 10 percent penalty against the taxes applicable to the factored base year value rather than the taxes applicable to the newly established base year value tied to the change in control or change in ownership.

Section 482(b) states that if a person or legal entity required to file a BOE-100-B 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 from the BOE, a penalty of 10 percent of the taxes applicable to the new base year value reflecting the change in control or change in ownership shall be applied.

By failing to apply the required section 482(b) penalty based on the new base year value reflecting the change in control or change in ownership of the real property owned by the corporation, partnership, or legal entity, the assessor is not following statutory requirements.

### ***New Construction***

Article XIII A, section 2 of the California Constitution defines, "full cash value" as the county assessor's valuation of real property as shown on the 1975-76 tax bill or, thereafter, the appraised

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<sup>6</sup> Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. Section 110.1(a)(2)(B) further defines full cash value for newly constructed property as the fair market value as of the date on which new construction is completed, or if uncompleted, on the lien date. Section 110.1(b) provides that the value determined under subdivision (a) shall be the base year value for the property.

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement constitutes a major rehabilitation of the improvement. Section 71 provides that the assessor must determine the new base year value for that portion of any newly constructed taxable real property. New construction in progress on the lien date shall be appraised at its full value as of the lien date and each lien date thereafter until the date of completion. At the time of completion, the entire portion of newly constructed property shall be reappraised at its full value.<sup>7</sup>

We reviewed a number of the assessor's records with new construction activity and found most assessment records were documented to reflect correct base year value, construction in progress and full cash value in accordance with section 110.1(a)(2)(B).

Supplemental assessments were created and issued based on the date of completion for the new construction activity. However, we found an area where improvement is needed.

**RECOMMENDATION 2:** Obtain required claim forms from property owners prior to granting new construction exclusions as required by section 74.5(d).

We found examples where the assessor had granted exclusions from assessment for new construction of seismic retrofitting components without first requiring the property owner to fill out form BOE-64 *Claim For Seismic Safety Construction Exclusion From Assessment* and to provide the necessary documentation as required by section 74.5(d). Currently, when the assessor receives a building permit for the addition of seismic retrofitting components to an existing building or structure, they close out the permit as non-assessable new construction.

Section 74.5 provides for a new construction exclusion for the addition of any seismic retrofitting components to existing buildings and structures. In order to receive this new construction exclusion, the property owner must notify the county assessor prior to, or within 30 days of, completion of the project. Additionally, all documents needed to support the claim must be filed no later than six months after completion of the project. It is the responsibility of the property owner, contractor, engineer, or architect to certify to the building department which portions of the project are for seismic retrofitting components. Upon completion of the project, the building department is to report to the county assessor the costs of those portions of the

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<sup>7</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/newconstruction\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/newconstruction_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>.

project designated for seismic retrofitting components. Section 74.5(d) requires that the BOE prescribe the manner and form for claiming the exclusion.

The assessor's practice of excluding seismic retrofitting components from assessment without obtaining the required claim forms and collecting supporting documentation is not in compliance with statute, and may result in the assessor granting exclusions for new construction that would otherwise be assessable.

### ***California Land Conservation Act Property***

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, such as hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.<sup>8</sup>

### **Income and Expenses**

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

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents, and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred

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<sup>8</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/clca\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/clca_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>.

for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

### Capitalization Rates

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

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

We reviewed several agricultural properties planted with vines or trees restricted by CLCA contracts and found an area in need of improvement.

**RECOMMENDATION 3:** Use an income approach for capitalizing restricted tree and vine income as specified by section 423.

To value living improvements, we found the assessor is factoring the base year value of enrolled living improvements by the inflation factor, on each lien date after their initial enrollment rather than capitalizing the income to the trees or vines as required by section 423.

In valuing living improvements under section 423, the assessor must calculate a restricted value based on income using the CLCA rate. The value using this approach is finally compared to the factored base year value and current market value in which the lowest of these becomes the enrolled value for each particular lien date. AH 521 describes the procedure for capitalizing tree and vine income to be utilized to value living improvements. The appropriate method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements is similar: (1) a period of development when production (income stream) initiates and rises, (2) a period of maturity when production remains relatively stable, and (3) a period of decline when production drops as the improvements near the end of their economic lives. Since the probable future income stream is irregular, the most accurate method of valuing living improvements is to estimate the present worth of each future year of (irregular) income by using the discounted cash flow method. The capitalization rate to be used should be composed of the same three elements that are included in the rate developed for the valuation of open land: interest, risk, and taxes. By valuing the living improvements by the factored base year value the assessor is not valuing the living improvements using the restricted income methodology as required by section 423, which may not establish a correct total value of the property for purposes of enrolling the lowest of the three values.

## **Mineral Property**

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.<sup>9</sup>

Santa Clara County has several mining properties and one petroleum property. There are no assessable high temperature geothermal properties in Santa Clara County.

Santa Clara County has three active mineral operations: a limestone property associated with a cement manufacturing operation and two sand, gravel, and rock properties.

**RECOMMENDATION 4:** Improve the mineral assessment program by:  
(1) calculating the current market value of the mineral appraisal unit for all properties each year, and  
(2) measuring declines in value on the appraisal unit.

### **Calculate the current market value of the mineral appraisal unit for all properties each year.**

On properties where the assessor uses the Royalty Method, no estimate of the current market value has been made.

The assessor uses the Royalty Method to determine the base year value of the leased fee mineral rights for most mineral properties. The Royalty Method capitalizes payments made to the mineral rights owner to estimate the value of the leased fee mineral interest. The assessor then adjusts the base year value to reflect the prior year's production and enrolls the adjusted base year value.

Proper appraisal procedure for mineral properties is to estimate the current market value of the total property each year and the quantity of proved reserves to be produced over the time period for the value estimate. The current market value of the mineral rights needs to be estimated in order to adjust base year values to account for changes to reserves from other than depletion, i.e. new reserves. New reserves can be added to a property either through additional discoveries or expansion of mineral operations. They are added at the current market value.

Failure to review the current market value of the property each year can result in failure to assess new reserves at the proper value.

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<sup>9</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/mineralprop\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/mineralprop_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>.

**Measure declines in value on the appraisal unit.**

The assessor uses the Royalty Method to determine the base year value of the leased fee mineral rights for most mineral properties. The Royalty Method is explained above in part (1) of this recommendation.

Since there is no current market value determination, there is no evaluation by the assessor of whether the current market value or the adjusted base year value of the mineral appraisal unit is the lower value.

All real property is subject to the protections of Article XIII A. This means that all real property receives a base year value – including fixtures. Rule 469(e)(2)(C) defines the appraisal unit of a mineral property as the land, improvements including fixtures, and reserves. However, as a result of the low inflation starting in the mid-1980s, there has been little need to track the adjusted base year value of fixtures since depreciation typically reduces that current market value below the adjusted base year value. For most properties, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value. Mineral properties, however, are treated differently. Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land, improvements including fixtures, and reserves. The assessor should use this unit for the purpose of measuring a possible decline in value.

Declines in the value of the mineral property are recognized when the market value of the appraisal unit, (i.e., land, improvements including fixtures, and reserves), is less than the current adjusted base-year value of the same unit. The lower of the two appraisal unit values should be enrolled.

Failure to properly determine the decline in value of a mineral property using the entire mineral property appraisal unit could result in an underassessment of the fixtures and equipment or an overassessment of the mineral rights.



## 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.<sup>10</sup>

### **Audit Quality**

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

During the surveyed assessment year, audit responsibility in Santa Clara County rested upon 37 permanent auditor-appraisers, and 18 audit support staff serving under the direction of 6 supervising auditor-appraisers, the assistant chief auditor-appraiser, and the chief auditor-appraiser.

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

**RECOMMENDATION 5:** Enroll all escape assessments discovered during the course of an audit unless there is an ordinance in place prohibiting escape assessments under a certain amount.

The assessor does not enroll escape assessments discovered during an audit when the net differences amount to \$5,000 or less.

While section 531.9 allows a county board of supervisors, by ordinance, to prohibit the assessor from making escape assessments of appraisal units where the amount of taxes due is less than the cost of assessing and collecting the tax, Santa Clara County does not have such an ordinance in place. Absent such an ordinance, all escape assessments should be enrolled.

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<sup>10</sup> 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](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>.

Without the required ordinance, an assessor does not have the authority to exempt low-value escaped property discovered by audit. Furthermore, an assessor's failure to enroll some escape assessments makes it difficult for the assessee to exercise their right of appeal and conflicts with the intent of Rule 305.3.

### ***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.<sup>11</sup>

### **Mobile Agricultural and Construction Equipment Valuation Factors**

The assessor has established separate factor tables for new and used mobile agricultural and construction equipment in accordance with the instructions on Table 5 and Table 6 in the AH-581. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both mobile agricultural and mobile construction equipment when the taxpayer does not indicate on the property statement whether the equipment was first acquired new or used. Where the condition is indicated, the assessor should use the "new" or "used" table. We reviewed the assessor's valuation tables related to this issue and found them to be correctly compiled in conformance with BOE recommended cost index and depreciation factors. However, we found a problem with the utilization of the mobile agricultural equipment factors.

**RECOMMENDATION 6:** Apply the mobile agricultural percent good factors, prescribed on Table 6 of the AH-581, when valuing mobile agricultural equipment.

We reviewed a number of assessments involving mobile agricultural equipment. In each case observed, values were derived using factors from Table 4, *Machinery and Equipment Percent Good Factors*, rather than factors from Table 6, *Agricultural Mobile Equipment Percent Good Factors*. The mobile agricultural equipment percent good factors indicated in the AH 581 are based upon an exclusive set of market parameters and are appropriate for valuing this property type.

The assessor's current practice of utilizing valuation tables whose market-derived components are not intended for the valuation of equipment of this nature fails to conform to section 401.16(a), is contrary to the purpose of section 401.5 which is to provide uniformity for assessed valuations, and leads to erroneous assessments.

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<sup>11</sup> 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](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>.

## APPENDIX A: STATISTICAL DATA

**Table 1: Assessment Roll**

The following chart displays pertinent information from the 2016-2017 assessment roll.<sup>12</sup>

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$202,536,299,726
	Improvements	\$204,331,818,123
	Fixtures	\$2,862,235,999
	Personal Property	\$3,258,189,148
	Total Secured	\$412,988,542,996
<b>Unsecured Roll</b>	Land	\$69,773,229
	Improvements	\$11,105,030,827
	Fixtures	\$7,723,152,746
	Personal Property	\$11,148,622,543
	Total Unsecured	\$30,046,579,345
<b>Exemptions<sup>13</sup></b>		(\$23,765,070,823)
	<b>Total Assessment Roll</b>	\$419,270,051,518

**Table 2: Change in Assessed Values**

The next table summarizes the change in assessed values over recent years:<sup>14</sup>

YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2016-17	\$419,270,052,000	8.0%	5.5%
2015-16	\$388,335,252,000	8.7%	6.0%
2014-15	\$357,339,710,000	6.8%	6.2%
2013-14	\$334,580,874,000	8.3%	4.3%
2012-13	\$308,808,219,000	3.2%	1.4%

<sup>12</sup> Statistics provided by BOE-822, *Report of Assessed Values By City*, Santa Clara County.

<sup>13</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>14</sup> State Board of Equalization Annual Report, Table 7.

**Table 3: Gross Budget and Staffing**

The assessor's budget has grown from \$29,143,194 in 2012-13 to \$37,901,978 in 2016-17.

As of the date of our survey, the assessor had 284 budgeted permanent staff. This included the assessor, assistant assessor, deputy assessor, administration services manager, 3 chiefs, 3 assistant chiefs, 1 director, 93 real property appraisers, 45 business property auditor-appraisers, 7 cadastral/draftspersons, 33 computer programmers/analysts/technicians, 24 other technical/professionals, and 71 support staff.<sup>15</sup>

The following table identifies the assessor's budget and staffing over recent years:<sup>16</sup>

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2016-17	\$37,901,978	7.8%	284
2015-16	\$37,283,131	11.9%	273
2014-15	\$34,362,682	5.0%	273
2013-14	\$31,738,183	8.9%	264
2012-13	\$29,143,194	2.3%	256

**Table 4: Assessment Appeals**

The following table shows the number of assessment appeals filed in recent years:<sup>17</sup>

YEAR	ASSESSMENT APPEALS FILED
2016-17	3,611
2015-16	3,401
2014-15	4,805
2013-14	5,377
2012-13	7,260

<sup>15</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

<sup>16</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

<sup>17</sup> 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:<sup>18</sup>

<b>YEAR</b>	<b>WELFARE EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2016-17	1,806	\$10,614,380,294
2015-16	1,828	\$10,170,825,771
2014-15	1,817	\$9,403,495,692
2013-14	1,701	\$8,582,786,647
2012-13	1,751	\$8,417,548,681

**Table 6: Exemptions – Disabled Veterans**

The following table illustrates disabled veterans' exemption data for the past five years:<sup>19</sup>

<b>ROLL YEAR</b>	<b>DISABLED VETERANS' EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2016-17	879	\$102,185,406
2015-16	837	\$95,491,114
2014-15	785	\$87,104,562
2013-14	752	\$81,575,133
2012-13	731	\$76,828,483

<sup>18</sup> Statistics provided by BOE-802, *Report on Exemptions*.

<sup>19</sup> Statistics provided by BOE-802, *Report on Exemptions*.

**Table 7: Change in Ownership**

The following table shows the total number of reappraisable transfers due to changes in ownership processed in recent years:<sup>20</sup>

YEAR	REAPPRAISABLE TRANSFERS
2016-17	23,153
2015-16	25,774
2014-15	25,568
2013-14	29,036
2012-13	30,519

**Table 8: 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:<sup>21</sup>

YEAR	TOTAL BUILDING PERMITS RECEIVED	NEW CONSTRUCTION ASSESSMENTS
2016-17	36,462	7,417
2015-16	32,396	6,701
2014-15	30,691	6,158
2013-14	28,319	5,789
2012-13	25,186	5,227

<sup>20</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

<sup>21</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

**Table 9: Declines In Value**

The following table shows the total number of decline-in-value assessments in recent years.<sup>22</sup>

<b>YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2016-17	6,646
2015-16	10,510
2014-15	22,436
2013-14	38,989
2012-13	80,798

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<sup>22</sup> Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

**Table 10: Audits**

The following table shows the minimum number of audits required to be conducted and the total number of audits completed in recent years.

<b>MINIMUM NUMBER OF AUDITS REQUIRED<sup>23</sup></b>	<b>2016-17</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2013-14</b>	<b>2012-13</b>
Largest Assessments	337	338	337	338	337
All Other Taxpayers	338	337	338	337	338
<b>Total Required</b>	<b>675</b>	<b>675</b>	<b>675</b>	<b>675</b>	<b>675</b>
<b>NUMBER OF AUDITS COMPLETED</b>					
<b>Total Audits Completed</b>	276	902	928	998	923
Largest Assessments	70	358	328	369	347
<b>Over/(Under) Required</b>	N/A	20	(9)	31	10
All Other Taxpayers	206	544	600	629	576
<b>Over/(Under) Required</b>	N/A	207	262	292	238
<b>CCCASE AUDITS</b>					
Prepared for other county assessors	58	54	44	58	48

<sup>23</sup> See LTA 2009/049, Significant Number of Business Property Audit, 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 2014 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.

### ***Exemptions***

**RECOMMENDATION 1:** Improve the administration of the disabled veterans' exemption program by properly applying the provisions of section 276 for disabled veterans' exemption claims that are not filed timely.

#### **Original Findings:**

While the assessor properly applies late-filing provisions for initial claims that are filed late, we found that the assessor does not apply late-filing provisions on annual claims that are filed late for the low-income provision of the disabled veterans' exemption.

#### **Original Assessor's Response:**

*We agree with this recommendation. Starting with the 2012/2013 roll year, we significantly improved our processing procedures to ensure proper application of the late-filing provisions*

#### **Current Status:**

The assessor has implemented this recommendation. The disabled veterans' claim files we reviewed evidence that the assessor correctly applies late penalties pursuant to the provisions of section 276.

### ***Change in Ownership***

**RECOMMENDATION 2:** Value properties subject to improvement bonds in accordance with section 110(b).

#### **Original Findings:**

We found several properties in which the assessor added value to the purchase price paid for bond improvements when establishing a base year value. The assessor does not have a study or other documentation to establish by a preponderance of the evidence that all or a portion of the value of the improvement bond is not already reflected in the consideration paid for the property.

**Original Assessor's Response:**

*We agree with this recommendation and have commenced implementing this recommendation.*

**Current Status:**

The assessor has implemented this recommendation. The Santa Clara Assessor presumes that the value of the improvements financed by the bonds is reflected in the purchase price paid for properties that are associated with improvement bonds and does not add any value for the bond amount to the purchase price.

***New Construction***

**RECOMMENDATION 3:** Improve the new construction program by: (1) obtaining copies of permits from the environmental health department, and (2) obtaining required information prior to granting new construction exclusions.

**(1) Obtain copies of permits from the environmental health department.**

**Original Findings:**

We found the assessor does not receive copies of permits issued by the Santa Clara County Department of Environmental Health. Permits from the environmental health department are issued for septic systems and water wells used for both agricultural and domestic purposes. During our review, we found a number of new wells that escaped assessment. We contacted the Santa Clara Valley Water District, which signs off on wells that have been installed, and found that there is data available to the assessor on the status of these well permits.

**Original Assessor's Response:**

*We agree with item one and have begun the process of obtaining copies of permits from the Environmental Health Department.*

**Current Status:**

The assessor has implemented this recommendation. The assessor has trained staff to collect permits from the Santa Clara Valley Water District on a weekly basis along with the other 16 permit issuing agencies.

**(2) Obtain required information prior to granting new construction exclusions.**

**Original Findings:**

We found several examples where the assessor had granted an exclusion from assessment for new construction of seismic retrofitting components without requiring the necessary

claim form or documentation. Currently, when the assessor receives a building permit for the addition of seismic retrofitting components to an existing building or structure, he simply closes out the permit as nonassessable new construction.

**Original Assessor's Response:**

*We agree with item two and will implement procedures to ensure proper forms have been filed before granting new construction exclusions for seismic retrofitting.*

**Current Status:**

The assessor has not implemented this recommendation. Refer to the New Construction Topic in the current Findings and Recommendations section for details.

**California Land Conservation Act Property**

**RECOMMENDATION 4:** Improve the CLCA program by: (1) classifying and enrolling living improvements as improvements, (2) using an appropriate income stream for capitalizing restricted tree and vine income, and (3) limiting the exemption period for grapevines to three years after the season of planting.

**(1) Classify and enroll living improvements as improvements.**

**Original Findings:**

We reviewed several vineyard properties under CLCA contracts and found that the assessor is incorrectly classifying and enrolling grapevines, which are living improvements, as land.

**Original Assessor's Response:**

*We agree and will implement your recommendations as time and resources become available.*

**Current Status:**

The assessor has implemented this recommendation. We reviewed several vineyard properties under CLCA contracts and found that the assessor is correctly classifying and enrolling living improvements as improvements, such as grapevines.

**(2) Use an appropriate income stream for capitalizing restricted tree and vine income.**

**Original Findings:**

We found that the assessor uses a straight-line declining income premise when appraising vineyards and orchards in all stages of production. This premise assumes that net income declines in equal increments year after year.

**Original Assessor's Response:**

*We agree and will implement your recommendations as time and resources become available.*

**Current Status:**

Despite the intent to comply, the assessor has not implemented this recommendation due to policy and staffing constraints. Refer to the CLCA topic in the current Findings and Recommendations section for details.

**(3) Limit the exemption period for grapevines to three years after the season of planting.**

**Original Findings:**

We found that the assessor incorrectly grants a fourth year of exemption for grapevines planted in vineyard form, which is contrary to article XIII, section 3(i) of the California Constitution and Rule 131.

**Original Assessor's Response:**

*We agree and will implement your recommendations as time and resources become available.*

**Current Status:**

We were unable to verify if the assessor has implemented this recommendation. There were no new examples of grapevines coming out of exemption known by the assessor, or discovered by the reviewer.

***Taxable Possessory Interests***

**RECOMMENDATION 5:** Improve the taxable possessory interest program by:  
(1) assessing all taxable possessory interests, and  
(2) issuing supplemental assessments for taxable possessory interests.

**(1) Assess all taxable possessory interests.**

**Original Findings:**

In our prior survey, we found the assessor is incorrectly exempting from assessment certain low-value taxable possessory interests. We found a number of taxable possessory interests at the Santa Clara County Fairgrounds that the assessor exempted because the assessed value was \$5,000 or less.

**Original Assessor's Response:**

*We agree with items one and two and will implement your recommendation as time and resources become available.*

**Current Status:**

The assessor has implemented this recommendation. The county has enacted a Low-Value Ordinance that specifically exempts TPIs not exceeding \$10,000.

**(2) Issue supplemental assessments for taxable possessory interests.**

**Original Findings:**

We found that the assessor is not consistently issuing supplemental assessments for taxable possessory interests that are reassessed for a change in ownership due to a creation, renewal, extension, or assignment. It is currently the assessor's practice to issue supplemental assessments for changes in ownership only when the new assessed value is \$1 million or more.

**Original Assessor's Response:**

*We agree with items one and two and will implement your recommendation as time and resources become available.*

**Current Status:**

The assessor has implemented this recommendation. We found the assessor consistently issues supplemental assessments for taxable possessory interests that are reassessed for a change in ownership due to a creation, renewal, extension or assignment.

***Mineral Property***

**RECOMMENDATION 6:** Improve the assessment of mining property by: (1) determining the current market value of the mineral appraisal unit for all properties, (2) measuring declines in value for mineral properties using the entire appraisal unit as required by Rule 469, and (3) treating settling ponds as a separate appraisal unit.

**(1) Determine the current market value of the mineral appraisal unit for all properties.**

**Original Findings:**

We found that for those mineral properties valued using the royalty method, the assessor did not make an estimate of the current market value of the total mineral property. The assessor estimated the current market value only for those mineral properties valued using the full discounted cash flow analysis.

**Original Assessor's Response:**

*We agree with this recommendation and will implement your recommendation as time and resources become available.*

**Current Status:**

The assessor has not implemented this recommendation. Refer to Mineral Property topic in the current Findings and Recommendations section for details.

**(2) Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.**

**Original Findings:**

We found Santa Clara County uses the royalty method to determine the base year value of the leased fee mineral rights for most mineral properties. The royalty method capitalizes the payments made to the mineral right owner to estimate the value of the leasehold mineral interest. We found that the assessor erroneously measures the decline in value of the leasehold mineral interest separately from the decline in value of the other components of the mineral property unit.

**Original Assessor's Response:**

*We agree with this recommendation and will implement your recommendation as time and resources become available.*

**Current Status:**

The assessor has not implemented this recommendation. Refer to Mineral Property topic in the current Findings and Recommendation section.

**(3) Treat settling ponds as a separate appraisal unit.**

**Original Findings:**

We found that the assessor does not determine a separate value for settling ponds on mineral properties as required by section 53.5.

**Original Assessor's Response:**

*We agree with this recommendation and will implement your recommendation as time and resources become available.*

**Current Status:**

Assembly Bill 1718 was chaptered in October 2017, repealing section 53.5 effective January 1, 2018. With the repeal of section 53.5, the requirement for separate appraisal of

leach pads, tailing facilities, and settling ponds was removed, thereby requiring these to be included in the appraisal unit when valuing mining or mineral properties. As a result, the original recommendation is no longer valid.

### **Business Property Statement Program**

**RECOMMENDATION 7:** Improve the business property statement (BPS) program by: (1) valuing taxable business property in accordance with section 501 when a taxpayer fails to file a BPS, (2) applying a section 463 penalty assessment in accordance with Rule 172 when a BPS is received without an authorized signature, and (3) improving the discovery process for the BPS program.

**(1) Value taxable business property in accordance with section 501 when a taxpayer fails to file a BPS.**

#### **Original Findings:**

We found when a completed BPS is submitted late, the assessor correctly calculates the current market value of reported taxable business property owned and controlled by the property owner and applies the statutorily-defined 10 percent penalty. However, we found that when the business owner fails to file a BPS, the assessor applies a pre-determined escalation rate of 10 percent to the previous year's enrollment. A 10 percent penalty is then applied to this escalated assessment. In addition, 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.

#### **Original Assessor's Response:**

*We agree with this recommendation and have begun the process of implementing your recommendations.*

#### **Current Status:**

The assessor has implemented this recommendation. The assessor has performed a study to identify an escalation factor, which the assessor applies when a property owner fails to file a BPS.

**(2) Apply a section 463 penalty assessment in accordance with Rule 172 when a BPS is received without an authorized signature.**

#### **Original Findings:**

We found that the assessor appropriately copies and returns submitted BPSs that are lacking an authorized signature. However, the assessor does not apply a section 463

penalty assessment as required by Rule 172(e) when these BPSs are not timely returned with an authorized signature.

**Original Assessor's Response:**

*We agree with this recommendation and have begun the process of implementing your recommendations.*

**Current Status:**

The assessor has implemented this recommendation. Our review of BPSs and procedures confirm that BPSs are processed correctly. The assessor rejects BPSs submitted without an authorized signature. If the BPS is not later returned with an authorized signature by the statutory deadline, the assessor applies a section 463 penalty assessment in accordance with Rule 172(e).

**(3) Improve the discovery process for the BPS program.**

**Original Findings:**

We found one of the assessor's ongoing responsibilities is the discovery of new businesses, relocation of existing businesses, and new tenant improvements occurring within his jurisdiction. We found that the assessor relies too heavily upon county-wide canvassing held once a year for the discovery process. There are other productive discovery tools not being utilized by the assessor, such as reviewing fictitious business name filings, city/county business license applications, sales tax permit applications, and landlord reports of tenants. Though a periodic field canvass can be an effective tool for updating and discovering businesses operating within the county, other available resources should be utilized, as well.

**Original Assessor's Response:**

*We agree with this recommendation and have begun the process of implementing your recommendations.*

**Current Status:**

The assessor has implemented this recommendation. The assessor now deploys a robust and sufficiently broad-based business discovery program which includes a business license tracking database.



***Business Equipment Valuation***

**RECOMMENDATION 8:** Correctly classify machinery and equipment reported on business property statements (BPS).

**Original Findings:**

We found that the assessor is not classifying a portion of machinery and equipment reported in bulk as fixed machinery and equipment when processing BPSs filed for service stations.

**Original Assessor's Response:**

*We agree with this recommendation and will implement your recommendation as time and resources become available.*

**Current Status:**

The assessor has implemented this recommendation. The assessor correctly classifies fixtures enrolled with service station assessments and consistently follows internally developed proration guidelines.

**RECOMMENDATION 9:** Apply the mobile construction and agricultural percent good factors prescribed in Tables 5 and 6 of AH 581 when applicable.

**Original Findings:**

We sampled a number of assessments involving mobile construction and agricultural equipment. In each case observed, value calculations were derived using valuation tables that did not include mobile construction and agricultural equipment percent good factors in their compilation. The percent good factors indicated in AH 581 are based upon an exclusive set of market parameters. Accurate assessments depend on the proper application of these tables. The assessor's use of valuation tables derived with generic percent good factors to value mobile construction and agricultural equipment may result in inaccurate value conclusions.

**Original Assessor's Response:**

*We agree with this recommendation and will implement your recommendation as time and resources become available.*

**Current Status:**

The assessor has not implemented this recommendation. Despite the assessor's intention to implement this recommendation, current procedures have not been changed. Refer to the Business Equipment Valuation topic in the current Findings and Recommendations section for details.

## **APPENDIX C: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP**

### ***Santa Clara County***

#### ***Chief***

David Yeung

#### ***Survey Program Director:***

Diane Yasui

Manager, Property Tax

#### ***Survey Team Supervisor:***

Andrew Austin

Supervisor, Property Tax

#### ***Survey Team Leader:***

Gary Coates

Associate Property Appraiser

#### ***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

Jeff Arthur

Associate Property Auditor-Appraiser

Cyrus Haze Ghazam

Associate Property Auditor-Appraiser

Jorge Torres

Assistant Property Appraiser

Alexander Fries

Junior Property Appraiser

Dany Lunetta

Associate Governmental Program Analyst

Zhanna Denisyuk

Tax Technician I

## APPENDIX D: RELEVANT STATUTES AND REGULATIONS

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

## **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 Santa Clara County Assessor's response begins on the next page. The BOE has no comments on the response.

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County of Santa Clara

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**MAY 18 2018**

County-Assessed Properties Division  
State Board of Equalization



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Lawrence E. Stone, Assessor

May 11, 2018

David Yeung, Chief  
County-Assessed Properties Division  
Property Tax Department  
State Board of Equalization (SBE)  
450 N Street, P.O. Box 942879  
Sacramento, CA 94279-0064

Dear Mr. Yeung:

Thank you for the opportunity to respond to the recommendations contained in the February 2017 Santa Clara County Assessment Practices Survey. Pursuant to Section 15645 of the California Government Code, enclosed is my written response to your findings and recommendations.

I strongly believe the independent audit conducted by the SBE provides a critical, professional examination of the appraisal practice and assessment procedures in an assessor's office, and is designed not only to protect the integrity of the property tax system, but to encourage standardization in assessment procedures among county assessors. In addition, failure to meet these standards carries severe financial consequences.

I wish to express my appreciation to the SBE survey team led by Andrew Austin for the professional manner in which the survey was conducted. Their cooperative and professional attitude throughout the process was acknowledged by all members of my management team. Their constructive comments regarding our assessment practices are much appreciated.

I also want to acknowledge and thank the employees of the Santa Clara County Assessor's Office for their dedication and commitment to excellence. Throughout the survey, comments by the SBE audit team about the efficiency of our assessment programs, and our overall operation, is a direct testament to the professionalism and performance of our employees.

Sincerely,

Lawrence E. Stone  
Assessor

SANTA CLARA COUNTY ASSESSOR'S OFFICE  
RESPONSE TO RECOMMENDATIONS

- RECOMMENDATION 1: Correctly calculate LEOP penalties applied to the new base year value of the property as required by section 482(b).
- RESPONSE: We agree with this recommendation and have changed our practices to correctly calculate LEOP penalties, per section 482(b).
- RECOMMENDATION 2: Obtain required claim forms from property owners prior to granting new construction exclusions as required by section 74.5(d).
- RESPONSE: We agree with this recommendation, and have begun implementing reviews to ensure proper forms have been filed before granting new construction exclusions for seismic retrofitting.
- RECOMMENDATION 3: Use an income approach for capitalizing restricted tree and vine income as specified by section 423.
- RESPONSE: We agree and will implement these recommendations as time and resources become available.
- RECOMMENDATION 4: Improve the mineral assessment program by: (1) calculating the current market value of the mineral appraisal unit for all properties each year, and (2) measuring declines in value on the appraisal unit.
- RESPONSE: We agree and will implement these recommendations as time and resources become available.
- RECOMMENDATION 5: Enroll all escape assessments discovered during the course of an audit unless there is an ordinance in place prohibiting escape assessments under a certain amount.
- RESPONSE 5: We agree. At our request the Board of Supervisors passed an ordinance in 2017 to address this issue. This ordinance did not exist for the period of the audit, so the recommendation was valid, but has now been corrected. Effective January 1, 2018, per county ordinance NS-300.915, subject to the conditions and limitations of Revenue and Taxation Code section 531.9, the Assessor shall not make an escape assessment of an appraisal unit where that assessment would result in an amount of taxes due which is less than the cost of assessing and collecting them. This subdivision shall not apply to any escape assessment of an appraisal unit if the amount of taxes resulting from the escape assessment would exceed fifty dollars (\$50).
- RECOMMENDATION 6: Apply the mobile agricultural percent good factors, prescribed on Table 6 of the AH 581, when valuing mobile agricultural equipment.
- RESPONSE: We agree with this recommendation and will implement your recommendation as time and resources become available.