STANISLAUS COUNTY
ASSESSMENT PRACTICES SURVEY

NOVEMBER 2016

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT
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November 7, 2016

TO COUNTY ASSESSORS:

No. 2016/044

STANISLAUS COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Stanislaus County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in specific 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 Don Gaekle, Stanislaus County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Stanislaus County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2014. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Gaekle 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/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

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INTRODUCTION

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

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

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

OBJECTIVE

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

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

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code[2] section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county.

This survey examined the assessment practices of the Stanislaus County Assessor's Office for the 2014-15 assessment roll. Since this survey did not include an assessment sampling pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.

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

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

[1] Government Code section 15642.

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

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, taxable possessory interests, 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, business equipment valuation, manufactured home assessments, aircraft assessments, and vessel assessments.

EXECUTIVE SUMMARY

We examined the assessment practices of the Stanislaus County Assessor's Office for the 2014-15 assessment roll. 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.

In the area of administration, the assessor is effectively managing staffing and workload, assessment appeals, and exemptions programs. However, we made a recommendation for improvement in the notification of taxpayers of their right to appeal assessments made outside the regular assessment period.

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

In the area of personal property and fixtures assessment, the assessor has an effective program for assessing vessels. However, we made recommendations for improvement in the audit, business property statement, business equipment valuation, and manufactured homes programs.

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

We found no significant assessment problems as defined in Rule 371. Since this survey did not include an assessment sampling pursuant to Government Code section 15640(c), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Stanislaus County continues to be eligible for recovery of costs associated with administering supplemental assessments.

OVERVIEW OF STANISLAUS COUNTY

Stanislaus County is located in mid-California and lies within the San Joaquin Valley. With a population of 525,491 the county encompasses 1,494 square miles of land area and is bounded on the north by Calaveras and San Joaquin Counties, on the east by Tuolumne County, on the south by Merced County, and on the west by Santa Clara County.

Created in 1854, Stanislaus County has nine incorporated cities: Ceres, Hughson, Modesto, Newman, Oakdale, Patterson, Riverbank, Turlock, and Waterford. The county seat, Modesto, was created April 1, 1854.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Stanislaus 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.

ADMINISTRATION

Assessment Appeals Filing Period for Supplemental and Escape Assessments and Roll Corrections

Section 1605 provides a separate filing period for assessments made outside the regular assessment period (i.e., supplemental assessments, escape assessments, and roll corrections) during which an application must be filed with the clerk. An *Assessment Appeal Application*, form BOE-305-AH, must be filed within 60 days of the assessee's notification of the assessment. In counties where the board of supervisors has adopted the resolution described in subdivision (c) of section 1605, the deadline is 60 days after the date of mailing printed on the tax bill reflecting the assessment appealed, or the postmark date, whichever is later.

RECOMMENDATION 1: In coordination with the Stanislaus County Treasurer-Tax Collector, include the 60-day notice of the right to appeal in the tax bill for assessments made outside of the regular assessment period.

We found that tax bills for escaped assessments and supplemental assessments issued by Stanislaus County do not include information properly notifying taxpayers of their right to appeal the subject assessment. Under the provisions of section 1605(c), the Stanislaus County Board of Supervisors has enacted a resolution that allows taxpayers to file an appeal within 60 days of the mailing of the tax bill or its postmark, whichever is later, eliminating the need for mailing a separate Notice of Enrollment of Escape Assessment. Under section 534(c)(3), the tax bill is considered notice *if* it advises the assessee of the right to appeal the assessment. While the board of supervisors has adopted the section 1605(c) resolution, the tax bill does not currently notify the assessee of the right to appeal the escape assessment.

By failing to provide this notice, the assessor is not adequately informing taxpayers of their right to file an appeal of the escape assessment. Since the county tax collector is responsible for the preparation of tax bills, the assessor should coordinate with that office to make this change to the assessment appeal information provided on the tax bill.

ASSESSMENT OF REAL PROPERTY

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.[3]

We reviewed a number of the assessor's records regarding new construction activity. We found assessment records were well documented with valuation of the new construction activity clear, concise, and compliant with documented sources. However, we found an area in need of improvement.

RECOMMENDATION 2: Properly classify all septic systems as improvements in accordance with Rule 124.

The assessor identifies rural septic systems and has been documenting their existence and valuation in property records. However, we found examples where the assessor incorrectly enrolled the value for new construction of a septic system as land value. Rule 124 provides that buried tanks are classified as improvements for property tax purposes.

By classifying septic systems as land, the assessor is underassessing structural improvements and overassessing the land. This may result in incorrect special assessments.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.[4]

[3] 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. 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.

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

The assessor enrolled 363 taxable possessory interests on the 2013-14 roll with a total assessed value of $63,889,945. The majority of taxable possessory interests are commercial airline facilities, and private interests at airport hangers. Other types of taxable possessory interests include private interests at the fairgrounds, grazing rights, satellite wagering facility, and cable television franchises.

We reviewed a number of taxable possessory interest records and found areas in need of improvement.

RECOMMENDATION 3: Improve the taxable possessory interest assessment program by: (1) properly issuing supplemental assessments; (2) using proper methodology in developing the capitalization rate to value taxable possessory interests; (3) exempting all qualifying low-value taxable possessory interests; and by (4) properly valuing taxable possessory interests when using discounted cash flow analysis.

Properly issue supplemental assessments.

Taxable possessory interests, like other real property, are subject to supplemental assessment whenever there is a change in ownership or completed new construction. We discovered taxable possessory interests where the assessor improperly calculated the supplemental assessment upon a change in ownership by offsetting the fair market value against the prior value on the roll and applying the difference. We also discovered taxable possessory interests where the assessor failed to issue supplemental assessments upon renewal.

Section 61(b) provides the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides there shall be a supplemental assessment following a change in ownership or completed new construction.

According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll when one taxable possessory interest is terminated during an assessment year and a second (but distinct) taxable possessory interest is created involving the same land and improvements during the same assessment year.

The assessor's failure to properly issue supplemental assessments is contrary to statute and results in incorrect supplemental assessments.

Use proper methodology in developing the capitalization rate to value taxable possessory interests.

The assessor uses the direct income approach to value taxable possessory interests whenever possible. In his direct income approach, to convert income to value, the assessor uses a capitalization rate taken from a nationally published real estate survey. To this capitalization rate the assessor adds a component for risk and a component for property taxes.

Under the provisions of Rule 8, subdivision (f), the capitalization rate shall contain a component for property taxes where applicable. According to AH 510, when the landlord (lessor) is responsible for paying the property taxes, the capitalization rate should include a component for property taxes. However, if the tenant is responsible for paying the property taxes in addition to rent, the capitalization rate should not include a component for property taxes. With most taxable possessory interests, the possessory interest tax is paid by the tenant (lessee or possessor) in addition to rent and, therefore, the capitalization rate typically should not include a component for property taxes.

In addition, due to the manner in which the capitalization rates are derived in the national survey noted above, risk is already included as a component. To that capitalization rate, the assessor adds an additional percentage point to recognize local risk, with no apparent support for the adjustment. Adding an additional percentage point for local risk to the capitalization rate may be warranted, but a supporting study is necessary before the adjustment is made.

Using improper methodologies in developing the capitalization rate to value taxable possessory interests may result in underassessments.

Exempt all qualifying low-value taxable possessory interests.

We found taxable possessory interests that qualified for the low-value exemption but were enrolled and the holder of the taxable possessory interest was sent a tax bill.

On May 21, 1991, the board of supervisors adopted Resolution No. 91-710 enacting the provisions of section 155.20 allowing the assessor to exempt any and all personal property with a full value of $2,000 or less. Resolution No. 91-710 was amended by Resolution No. 2004-948, adopted December 14, 2004, to allow the assessor to exempt real property with a base year value of $2,000 or less and any personal property with a full value of $5,000 or less.

The assessor's practice fails to comply with the board of supervisor's decision to implement the provisions of section 155.20, and results in unequal treatment of taxpayers.

Properly value taxable possessory interests when using discounted cash flow analysis.

In some instances, we found the assessor uses a discounted cash flow (DCF) analysis to value taxable possessory interests with a stated term of possession. This method of valuation is appropriate when the income is projected to vary from year to year over the stated term (holding period). To establish the base year value of a taxable possessory interest using DCF, the assessor uses the stated term as the holding period, determines the present worth of each year's net income, and totals the present worth of each year's income together to arrive at an indicator of market value for the creation of new taxable possessory interests. For subsequent years, in accordance with Rule 21(a)(6) to reflect a declining term, the assessor reduces the holding period by one year. However, the assessor is incorrectly removing the final year of the holding period rather than the year that has just passed. In his DCF analysis for subsequent roll years, the assessor is effectively using past income rather than future income.

In the income approach-direct method, the appraiser estimates the value of the subject taxable possessory interest by discounting either the estimated economic rent (less allowed expenses paid by the public owner) or that portion of the estimated future net operating income attributable to the subject taxable possessory interest for the reasonably anticipated term of possession using a discount rate that reflects the risk associated with the receipt of the expected future net operating income.

Failure to utilize the future income when determining the present value may result in incorrect assessments.

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.

During the surveyed assessment year, audit responsibility in Stanislaus County rested upon five auditor-appraisers, and three assessment technicians serving under the direction of a supervising auditor-appraiser.

Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to BOE's calculations, the statute requires the assessor to complete 112 audits per year, with 56 of those audits required to be performed on taxpayers selected from the pool of taxpayers with the largest assessments of locally assessable trade fixtures and tangible business personal property in the county. In our review of the assessor's audit program, we found an area in need of improvement.

RECOMMENDATION 4: Modify the audit selection procedure to correctly develop the pool of largest audit accounts as defined by Rule 192.

We found that a significant number of completed audits listed on the assessor's audit tracking schedule were incorrectly classified as audits from the pool of taxpayers with largest assessments. As a result, while the total minimum number of 112 required audits was exceeded in all years reviewed, the assessor did not conduct the minimum number of 56 required audits from the pool of taxpayers with the largest assessments in two of the last five years. For 2013-14, completed largest assessment audits totaled 52, and for 2011-12, completed largest assessment audits totaled 47. The assessor's current methodology for identifying the pool of taxpayers with the largest assessments is not consistent with section 469, Rule 192, and BOE guidance.

In Letter To Assessors (LTA) 2009/049, BOE offers guidance for compiling the pool of taxpayers with largest assessments in accordance with section 469(b)(1) and Rule 192. The statutorily required pool of taxpayers with largest assessments totals 224. That pool of 224 represents the count of audits of those taxpayers with the largest assessments that must be completed within four years; divide 224 audits by 4 years to arrive at the annually required 56 audits that must be completed from the pool.

The largest assessments pool is compiled by ranking all of the taxpayers in the county, in descending order, by the total locally assessed value of both trade fixtures and business tangible personal property. On the resulting listing, taxpayers from the 224th rank up to the 1st rank represent the pool of taxpayers with the largest assessments, to be audited over the next four years. It should be noted that the number of taxpayers in this pool will not change, although individual taxpayers in the pool may churn in and out from year to year as businesses close, open, grow, or reduce in size.

By failing to correctly develop the pool of largest assessments, the assessor is not in compliance with the provisions of section 469 and Rule 192, risks not auditing the required number of largest assessments for the current year, and, as a result, may allow incorrect assessments of taxable business personal property to become permanent.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of $100,000 or more to annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program.[5]

The Business Division is composed of five auditor-appraisers and three assessment technicians who serve under the direction of the supervising auditor-appraiser. Overall, the assessor's BPS processing program is well administered. However, we found an area in need of improvement.

RECOMMENDATION 5: Advise taxpayers of the need to file a property statement or report form in accordance with Rule 171(f).

We found that the assessor is not requesting a completed BOE-571-R, *Apartment House Property Statement*, annually from all owners of larger apartment house complexes with personal property equaling or exceeding the $100,000 cost threshold. Instead, the property statement is requested once every four years from all apartment owners, without regard to total historical cost.

Rule 171(f) requires the assessor to furnish property statements and report forms, either by mail or electronically, to every person required by law to file such a statement or form. In lieu of furnishing a statement or form, Rule 171(f) allows an assessor to mail a letter or postcard to persons required by law to file a report form or property statement advising them that the required form or statement is available on the assessor's website and that a copy of the form or statement may be requested from the assessor. Because section 441 requires each person owning taxable personal property with an aggregate cost of $100,000 or more to file a signed property statement annually with the assessor, all owners of apartment houses with personal property acquisition costs of $100,000 or more should be receiving property statements annually from the assessor or should be notified by letter or postcard of the need to file a statement or form.

The assessor's current practice does not comply with the provisions of Rule 171(f).

[5] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Property Statement Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_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

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate valuation factor.[6]

Mobile Agricultural and Construction Equipment Valuation Factors

The assessor currently utilizes separate factor tables for new and used mobile agricultural and construction equipment in accordance with the instructions on Table 5 and Table 6 published in the Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (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 must use the "new" or "used" table. We reviewed the assessor's mobile agricultural equipment factor tables and found that most of the valuation tables were correctly compiled in conformance with BOE-recommended cost index and depreciation factors. However, we found areas in need of improvement.

RECOMMENDATION 6: Improve the business equipment valuation procedures by: (1) applying the mobile agricultural equipment percent good factors prescribed in Table 6 of the AH 581 as intended; and by (2) supporting any divergence from the recommended use of cost indices and percent good factors published in the AH 581 with market evidence.

Apply the mobile agricultural equipment percent good factors prescribed in Table 6 of the AH 581 as intended.

We observed a number of instances where the assessor applied mobile agricultural equipment valuation tables to other agricultural related personal property. These tables are intended for the valuation of self-propelled machinery and related implements. Therefore, the assessor is incorrectly calculating current market value estimates of non-mobile agricultural equipment including, but not limited to, bins, air compressors, portable calf pens, portable pumps, welders, generators, etc. The mobile agricultural equipment percent good factors published in the AH 581 are based on market indicators for self-propelled machinery. Accurate assessments depend on judicious application of these tables. Mobile agricultural valuation tables will likely lead to inaccurate value conclusions when applied to other moveable, but non-mobile (i.e., non-self-propelled) taxable property.

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

Support any divergence from the recommended use of cost indices and percent good factors published in the AH 581 with market evidence.

We found three specific cases where the assessor is not using BOE price indices and depreciation factors, as recommended by BOE. The first two cases involve tables developed by the assessor to value mobile tomato harvesting equipment. The third instance involves a table used by the assessor to value mobile irrigation pipe.

The mobile agricultural equipment table used by the assessor to value tomato harvesting equipment purchased *new* does not include in its development price index factors as prescribed in the AH 581, and therefore does not reflect price changes since the property was acquired. While the table used to value tomato harvesters purchased *used* is properly composed of both BOE-prescribed price index factors and percent good factors, the combined valuation factors are discounted by an additional 20 percent, an adjustment for which the assessor could not provide current market evidence. Finally, the table developed by the assessor to value mobile irrigation pipe does not utilize BOE prescribed price index factors or percent good factors, and is not supported by current market sales data.

The price index factors published in AH 581 are intended for use in mass appraisal, and are generally reliable and practical for converting historical cost to estimates of reproduction cost. The percent good factors published in the AH 581 are supported by the premise that consumable business equipment loses value with both use and age. The factors reflect the normal loss in value suffered by specific types of properties over their expected average service lives. They are based upon specific market behavior, and are intended to facilitate the derivation of current market value estimates in mass appraisal applications. Any deviation from these recommended factors should be supported by documented market evidence to substantiate that a more accurately derived value indicator would result.

The unsupported construction of valuation tables weakens the relevance of the resulting value indicator and likely leads to inaccurate value conclusions. A further consequence of using non-standardized value estimation approaches is the increased likelihood of disparate enrolled valuations when comparing similar property enrollments in other California counties.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.[7]

[7] For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mhomes_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.

Generally, the assessor maintains an effective program for the assessment of manufactured homes. However, we found one area in need of improvement.

RECOMMENDATION 7: Utilize recognized value guides as intended when assessing manufactured homes.

We found the assessor uses a methodology that tabulates value information from the *National Automobile Dealer Association* (NADA) *Manufactured Housing Cost Guide*'s Supplemental Value Section (SVS) to value manufactured homes, including makes and models for which specific values are provided in the guide. The cost and quality information provided in the SVS is intended for use primarily on certain manufactured housing types (mobile office units, for example), or on properties for which property attributes or values are not listed in the make and model value sections of the NADA guide. The result is that the make and model are not taken into consideration in the appraisal of the subject property. SVS is not intended for use when the make and model are known, and for which values are provided in the guide. Additionally, the assessor is not applying percent good factors from the most current edition of the Assessors' Handbook Section 531, *Residential Building Costs* (AH 531).

Section 5813 states that for each lien date after the lien date for which the base year value is determined, the taxable value of a manufactured home shall be the lesser of its factored base year value (FBYV) or its full market value as of the lien date. In determining the market value of a manufactured home, the cost approach is the preferred method because its use eliminates any site influence. Therefore, under the provisions of section 5803(b), the proper method to estimate a manufactured home's current market value is to use a published cost guide, such as NADA or AH 531. After determining cost, depending on which published guide is used, the assessor should apply the appropriate percentage depreciation to arrive at an indicator of market value. The assessor should then compare the indicated current market value to the FBYV and enroll the lower of the two.

The assessor's current practice may result in the incorrect assessment of manufactured homes.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2014-15 assessment roll:[8]

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	$10,808,569,773
	Improvements	$27,213,292,788
	Personal Property	$898,232,455
	Total Secured	$38,920,095,016
Unsecured Roll	Land	$27,312,450
	Improvements	$959,988,933
	Personal Property	$1,112,617,630
	Total Unsecured	$2,099,919,013
Exemptions[9]		($1,844,694,448)
	Total Assessment Roll	$39,175,319,581

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:[10]

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2014-15	$39,175,320,000	11.5%	6.2%
2013-14	$35,134,919,000	4.9%	4.3%
2012-13	$33,480,321,000	-2.5%	1.4%
2011-12	$34,338,835,000	-2.3%	0.1%
2010-11	$35,156,894,000	-4.7%	-1.9%

[8] Roll values are from BOE-822, *Report of Assessed Values By City*, 50 Stanislaus County.
[9] The value of the Homeowners' Exemption is excluded from the exemptions total.
[10] Roll Values and Statewide changes are from the California State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

At the time of this survey, Stanislaus County Assessor's budgeted staff totaled 54, including the assessor and 2 assistant assessors; 24 real property appraisers including supervising appraisers; 7 business property auditor-appraisers including supervising auditor-appraisers; 2 cadastral draftspersons; 3 computer programmers, analysts, technicians; and 15 support staff.

The following table shows the assessor's total expenses budget and staffing over recent years[11]:

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2014-15	$5,452,880	3.1%	54
2013-14	$5,287,274	-1.4%	54
2012-13	$5,361,451	-3.0%	54
2011-12	$5,529,993	-0.8%	58
2010-11	$5,576,976	-2.0%	58

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:[12]

YEAR	ASSESSMENT APPEALS FILED
2014-15	301
2013-14	383
2012-13	466
2011-12	663
2010-11	837

[11] Information is from *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.
[12] Information is from *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:[13]

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2014-15	446	$1,363,923,646
2013-14	530	$1,439,070,557
2012-13	487	$1,401,980,430
2011-12	445	$1,002,556,653
2010-11	464	$1,338,055,307

Table 6: Change in Ownership

The following table shows the total number of reappraisable transfers in Stanislaus County in recent years.[14]

YEAR	REAPPRAISABLE TRANSFERS
2014-15	11,009
2013-14	13,527
2012-13	13,457
2011-12	15,264
2010-11	16,491

[13] Statistics are from BOE-802, *Report on Exemptions*.
[14] Information is from *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 7: New Construction

The following table shows the number of new construction assessments for recent years:[15]

ASSESSMENT ROLL	NEW CONSTRUCTION ASSESSMENTS
2014-15	1,762
2013-14	1,617
2012-13	2,117
2011-12	1,590
2010-11	1,438

Table 8: Declines In Value

The following table illustrates the decline-in-value workload from recent years:

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2014-15	35,630
2013-14	48,018
2012-13	85,112
2011-12	99,397
2010-11	94,873

[15] New Construction and Declines-in-Value statistics provided by Table F of *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Stanislaus County

Chief

David Yeung

Survey Team Director:

Diane Yasui	Manager, Property Tax

Survey Team Supervisor:

Andrew Austin	Supervisor, Property Tax

Survey Team Leader:

Tammy Aguiar	Senior Specialist Property Appraiser

Survey Team:

James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Cheron Burns	Associate Property Appraiser
Robert Marr	Associate Property Appraiser
Jeff Arthur	Associate Property Auditor-Appraiser
Jorge Torres	Assistant Property Appraiser
Cyrus Haze Ghazam	Assistant Property Auditor-Appraiser
Lisa Law	Junior Property Appraiser
Dany Lunetta	Associate Governmental Program Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	Description
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 370	**Random selection of counties for representative sampling.**
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 Stanislaus County Assessor's response begins on the next page. The BOE has no comments on the response.

Stanislaus County
Striving to be the Best

Don H. Gaekle
Stanislaus County Assessor

Mercy Maya
Assistant Assessor
Administration

Matt N. Reavill
Assistant Assessor
Valuation

1010 Tenth St., Suite 2400
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October 21, 2016

Mr. David Yeung, Chief
County Assessed Properties Division
California State Board of Equalization
160 Promenade Circle Suite 200
Sacramento, CA 95834, MIC: 64

RE: Assessor Response to Recommendations

Dear Mr. Yeung;

Thank you for meeting with us via conference call on September 21st regarding the draft 2014 Assessment Practices Survey report for Stanislaus County. This written response is made pursuant to Section 15645 of the California Government Code. I request that our response be included in your final report.

I want to compliment the BOE survey team members for their professional and courteous demeanor and thank them for their constructive comments and recommended improvements to our office practices.

I also want to take this opportunity to recognize the staff of the Stanislaus County Assessor's Office and thank them for their commitment, dedication and professionalism in serving the citizens of Stanislaus County.

Please see our specific responses below. Do not hesitate to call me directly at (209) 525-7621 or contact me by email if you should have any questions.

Respectfully,

Don H. Gaekle, Assessor

CC: Diane Yasui, Manager, County Assessed Properties Division
Andrew Austin, Supervisor, County Assessed Properties Division

Stanislaus County 2014 Assessment Practices Survey Responses

RECOMMENDATION 1: In coordination with the Stanislaus County Treasurer-Tax Collector, include the 60-day notice of the right to appeal in the tax bill for assessments made outside of the regular assessment period.

Response: We concur with the recommendation. The Stanislaus Treasurer-Tax Collector has already begun inclusion of the following statement with bills for assessments made outside the regular assessment period.

"If you disagree with your assessed value on the Supplemental, Escape and/or Roll Correction Assessments bill, please contact the Assessor's Office at (209) 525 6461 to discuss your value. If you are not satisfied with the results of the discussion, you have the right to file an application for changed assessment for the Supplemental, Escape and/or Roll Correction assessments with the Stanislaus County Assessment Appeals Board within 60 days from the date of mailing printed on the tax bill or the postmark date, whichever is later. Applications for Changed Assessment for Supplemental, Escape and/or Roll Corrections bills may be obtained online at www.stancounty.com/board/aab.shtm or from the Assessment Appeals Board Clerk located in the Board of Supervisors Office at 1010 10th Street, Suite 6700, Modesto, CA 95354. Phone: (209) 525 6414. Filing an assessment appeal does not change the tax amount or due dates on this bill."

RECOMMENDATION 2: Properly classify all septic systems as improvements in accordance with Rule 124.

Response: We concur with the recommendation and will properly allocate value to structure for all new or replacement installations of septic systems. We will correct the allocation for other parcels as appraisals are worked for new construction or changes in ownership.

RECOMMENDATION 3: Improve the taxable possessory interest assessment program by: (1) properly issuing supplemental assessments; (2) using proper methodology in developing the capitalization rate to value taxable possessory interests; (3) exempting all qualifying low-value taxable possessory interests; and by (4) properly valuing taxable possessory interests when using discounted cash flow analysis

Response: (1) We concur and will properly issue supplemental assessments where required and without offset of prior roll values. (2) We concur and will add a tax rate component to capitalization rates only where the landlord bears the burden of tax and will add an additional specific risk component when documented and supported by local data. (3) We concur, however, we must point out that we were relying on automatic application of this exemption through our Megabyte property tax system. The system is apparently unable to automatically apply this real property exemption on the unsecured roll. We will review low value possessory interests at roll turnover to ensure that the approved low value ordinance exemptions are applied. (4) We concur with the finding that our cash flow model is not accurate when used in subsequent declining term analysis, as it is removing the final year rather than the most recently completed year when calculating present worth. We have redesigned our spreadsheet to correct this problem.

RECOMMENDATION 4: Modify the audit selection procedure to correctly develop the pool of largest audit accounts as defined by Rule 192.

Response: We concur and have modified our selection procedure to comply with Rule 192.

RECOMMENDATION 5: Advise taxpayers of the need to file a property statement or report form in accordance with Rule 171(f).

Response: We concur and will follow Rule 171(f) in sending property statements to apartment house owners having $100,000 or more in personal property.

RECOMMENDATION 6: Improve the business equipment valuation procedures by: (1) applying the mobile agricultural equipment percent good factors prescribed in Table 6 of the AH 581 as intended; and by (2) supporting any divergence from the recommended use of cost indices and percent good factors published in the AH 581 with market evidence.

Response: We concur and have corrected our valuation procedures and equipment table assignments.

RECOMMENDATION 7: Utilize recognized value guides as intended when assessing manufactured homes.

Response: We concur and will use a recognized value guide to establish all base values. We are reviewing our mobile home Prop 8 valuation program so that we may use only a recognized value guide to determine value.