2005-2006 Civil Grand Jury

City and County of San Francisco

OFFICE OF THE ASSESSOR-RECORDER:

REDUCING THE 4-YEAR BACKLOG

Report Released: June 2006

Purpose of the Civil Grand Jury

The purpose of the Civil Grand Jury is to investigate the operations of the various departments, agencies, and officers of the government of the City and County of San Francisco, to <u>develop constructive recommendations for improving the operations</u> of the City and County of San Francisco, as required by law.

Each Civil Grand Jury has the opportunity and responsibility to determine which officers, departments and agencies it will investigate during its one year term of office. To accomplish this task, the Civil Grand Jury divides into committees. Each committee researches in depth the departments or areas which are being investigated, by visiting government facilities, meeting with public officials and employees, and reading appropriate documents.

The nineteen members of the Civil Grand Jury are selected at random from a pool of thirty prospective jurors. San Francisco residents are invited to apply. More information can be found at: http://www.sfgov.org/site/courts_page.asp?id=3680, or by contacting Civil Grand Jury, 400 McAllister Street, Room 008, San Francisco, CA 94102; (415) 551-3605.

State Law Requirement

Pursuant to state law, reports of the Civil Grand Jury do not identify the names or identifying information about individuals who provided information to the Civil Grand Jury.

Departments and agencies identified in the report must respond to the Presiding Judge of the Superior Court within the number of days specified, with a copy sent to the Board of Supervisors. As to each finding of the Civil Grand Jury, the response must either (1) agree with the finding, or (2) disagree with it, wholly or partially, and explain why. Further, as to each recommendation made by the Civil Grand Jury, the responding party must report either (1) that the recommendation has been implemented, with a summary explanation of how it was; (2) the recommendation has not been implemented, but will be implemented in the future, with a time frame for the implementation; (3) the recommendation requires further analysis, with an explanation of the scope of that analysis and a time frame for the officer or agency head to be prepared to discuss it (less than six months from the release of this report); or (4) that recommendation will not be implemented because it is not warranted or reasonable, with an explanation of why that is. (California Penal Code, Sections 933, 933.05.)

Purpose of This Report

The purpose of this report is to help the Office of the Assessor-Recorder effect needed changes and improvements. This should result in improved efficiency in making appropriate and timely appraisals of real property and issuing property tax assessments to avert further loss of city revenue.

I. Summary

The Office of the Assessor-Recorder (OAR) is responsible for appraisals, assessments, and reassessments on all taxable property within the City and County of San Francisco (city). The OAR's extensive backlogs for assessing new construction have been reported by the press in recent years. The OAR's failure to make some reassessments within the four-year statute of limitations results in a permanent loss of tax revenue to the city for those years. There are ten top counties in California measured by total assessed valuation; from the point of view of the state Board of Equalization (BOE), the OAR ranks last.

The Civil Grand Jury's investigation found that the OAR can improve processes and procedures to more accurately and timely appraise and issue assessments for new construction and for properties which have been sold. The Civil Grand Jury did not investigate, and this report does not concern, the assessment of personal property.

Recommendations in this report include improving the transfer of data about construction projects and building permits from the Department of Building Inspection to the OAR. The OAR needs to establish written procedures and processes, update job descriptions, comply with state-mandated appraisal methods, standardize record keeping, establish standard office procedures for appraising and assessing new construction, improve its preparation and presentation of appeals before the Assessment Appeals Board, and, once the foregoing is accomplished, determine the optimal size of staff.

Additionally, recommendations include: obtaining a user's manual for the EZ Access computer system, training appraisers in its use, cross-training personnel to be better able to address work surges in different parts of the office, actively participating in the California Assessors' Association, and giving prompt attention to, and complying with, regulations and recommendations from the state BOE.

2005; Ilene Lelchuk, "Incumbent San Francisco Assessor Ting Wins After Tough Race," *San Francisco Chronicle*, November 9, 2005.

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¹ David Dietz, "Assessor's Office Falters," *San Francisco Chronicle*, May 30, 1995; David Dietz, "Assessor Shortchanging City, Critics Say. Under Valuations Cost Millions," *San Francisco Chronicle*, May 6, 1998; Rachel Gordon, "Lax Tax Billing Costing S.F. Millions a Year," *San Francisco Chronicle*, page A21, November 20, 2001; Todd Wallack, "S.F. Gives Treasurer Unintended Tax Break on House Expansion. Property Among Thousands In City Assessor's Backlog," *San Francisco Chronicle*, October 1,

II. Introduction

In the past three years there have been three assessor-recorders; this turnover has been caused by elections and resignations. The current assessor-recorder was appointed to the position in July 2005 and then elected to the office in November 2005 for a four-year term. The findings in this report result from conditions existing at the time he took office.

Lengthy backlogs, especially in reassessing new construction, have been a matter of public knowledge in recent years and have resulted in loss of revenue. When property is reassessed within four years after completion of construction or change of ownership, the lost revenue can be recovered, but without interest. After four years a state statute of limitations comes into play, and revenues are permanently lost. Although the full extent of the loss is unknown, the loss is conservatively estimated by the assessor-recorder at \$2,000,000 per year² due to backlogs and other significant problems the assessor-recorder inherited. This loss, which may be greater than estimated, is an on-going cost until the backlogs are eliminated. The OAR needs to take action to turn things around.

The number of parcels awaiting processing was approximately 26,600 as of March 16, 2006. Since there are only approximately 190,000 parcels of property in San Francisco, this backlog represents 14% of all property in the city. This significant appraisal backlog is unusual for a county of San Francisco's total assessed value. The backlog has caused some new assessments not occurring within the four-year time limit mandated by state law,³ resulting in lost revenue to the City and County of San Francisco.

Historically, the OAR has not published an annual report of its activities to the public. However, the OAR has recently completed its *2005 Annual Report* and fully intends to publish an annual report each year.

In this report, the Civil Grand Jury identifies several areas where improvements can be made to the OAR's procedures, personnel, systems, and methodologies to make the OAR better organized and more efficient, especially with regard to one of the three "Major Service Areas" of the OAR, the *Real Property Division*, and two of the "Support Areas," *Assessment Standards and Quality Control*, and *Information Systems*. These "areas" are more fully explained on the two tables of "Responsibilities" in Appendix B attached to this report. Improvements recommended by the Civil Grand Jury are divided into six topics and listed in Section V, Findings and Recommendations, as follows:

- Most Critical Concerns: Assessment Backlogs and BOE Recommendations
- 2. Office Procedures
- 3. Information Technology

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² Charlie Goodyear, "Ting Vows End to Assessment Backlog; Understaffed Office Needs Two Years to Catch Up," *San Francisco Chronicle*, page B5, March 16, 2006.

³ State Revenue and Taxation Code, Section 532 (a).

- 4. Staffing
- 5. Backlog of Appeals
- 6. Additional Concerns

III. Procedure and Resources

The Civil Grand Jury's investigation consisted of confidential interviews, correspondence with the OAR and others, examination of documents, and review of Internet sites.

The Civil Grand Jury commenced its investigation in October 2005. We obtained records and conducted interviews with officers and employees from the following:

Office of the Assessor-Recorder, City and County of San Francisco
Office of the City Attorney, City and County of San Francisco
Office of the Treasurer and Tax Collector, City and County of San Francisco
Department of Building Inspection, City and County of San Francisco
Assessment Appeals Board, City and County of San Francisco
Board of Equalization, State of California
Office of the Assessor, County of Alameda

The Civil Grand Jury also obtained information from the following Web sites:

City and County of San Francisco - http://www.ci.sf.ca.us/
Office of the Assessor-Recorder - http://www.sfgov.org/site/assessor_index.asp
Board of Equalization, State of California - http://www.boe.ca.gov/
California Assessors' Association - http://www.calassessor.org/
County of Alameda - http://www.acgov.org/assessor/
County of Santa Clara - http://www.sccgov.org/portal/site/asr/

Web site addresses were correct as of March 24, 2006.

IV. Discussion

Almost without exception the people interviewed by the Civil Grand Jury commented about the backlogs of properties awaiting appraisal and assessment. Rather than aggressively fix the problem, the OAR's staff seems to be overwhelmed by the problem.

Tax rolls close on June 30 at the end of each fiscal year, and the assessor-recorder conservatively estimated that the city loses \$2,000,000 per year in uncollected revenue due to the assessment backlog. In March 2006 the number of parcels awaiting processing was approximately 26,600. This total includes approximately 6,800 properties with new construction, having an estimated value of \$1 billion; 3,800 properties with changes of

ownership, having a current assessment roll value of approximately \$8.14 billion; and approximately 16,000 other properties, including personal property, which currently require preparatory processing before an appraisal can be completed.⁴ (For definitions of "new construction" and "personal property," refer to the Glossary at the end of this report.)

The assessor-recorder's goal to eliminate the backlog is to reduce it to twelve months, from three to four years or more. We recommend that it be further reduced to six months, except for appraisals under appeal. There are two reasons for this: 1) even if construction lasts a number of months or years, the OAR has had the same number of months or years to consider the appraisal and should therefore be able to arrive at an appraised value very soon after a Certificate of Occupancy is issued; and, 2) there is an advantage in having a shorter backlog of six months because it allows more "breathing room" if a surge in demand extends the backlog by, for example, three months. A surge in appraisal work is certainly more acceptable in extending the length of backlog from six to nine months, than it is from twelve to fifteen months.

Once every five years the BOE conducts a review of the top ten counties' property tax assessment functions to determine whether properties are being assessed properly and to identify areas where improvements should be made. Issued as an "Assessment Practices Survey," the report provides an overview of how well the duties of the assessor are performed and includes recommendations to correct asssessment deficiencies and improve compliance with state law. In its 2002 report on San Francisco, the BOE identified numerous problems with the OAR and listed 56 specific recommendations, which are summarized in Appendix A to this report. Interviewees confirmed that many of the BOE's recommendations still have not been addressed by the OAR, including the following four significant concerns.⁵

- 1. "The high vacancy rate for assessment positions has adversely affected the assessment of property. The already high number of unprocessed building permits has increased since the BOE surveyed in 1996. As a result, property in the city and county is being under assessed. Recommendation 1: To complete the Assessor's statutory obligations, we recommend the assessor fill current assessment vacancies." (Page 23.)
- 2. "We found a lack of standards and quality control in the OAR. As mentioned earlier, there is no policies or procedures manual. Staff within each unit determines their own arbitrary minimum value for assessing new construction. ... Recommendation 2: Task the assessment standards section with the responsibilities of standards and quality control. Recommendation 3: Develop a comprehensive policies and procedures manual." (Page 25.)

⁵ State Board of Equalization, Assessment Practices Survey of the City and County of San Francisco, December 2002.

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⁴ All figures were confirmed by e-mail from the OAR to the Civil Grand Jury on May 15, 2006.

- 3. "Many appraisal records ... are missing. Records could not be found for approximately 15 percent of the 327 properties we selected for sample. The records are stored on open shelves. There is no system in place to control access to these records; staff is free to pull records at any time without recording who has possession. Controlling appraisal records is one of the key responsibilities of the assessor because the appraisal records are the basis for all assessments.

 Recommendation 5: Implement a system to control access to appraisal records." (Page 27.)
- 4. "We found lengthy delays in processing building permits and enrolling value added due to new construction. ... The assessor's delay in the assessment of new construction beyond the four-year statute of limitations, per Section 532(a) of the Revenue & Taxation Code, has resulted in lost tax revenue for the city and county ... the city and county have irretrievably lost revenue from assessable new construction as indicated by over 500 permits. Recommendation 25: Eliminate the backlog of assessable new construction." (Page 41.)

In fact, the BOE ranked San Francisco's OAR as the least efficient of the assessor-recorder offices in the ten largest counties, measured by total assessed valuation.⁶

Other problems that have plagued the OAR and resulted in low morale and poor staff productivity include:

- 1. Unfilled Positions and Recruiting Process: Many positions are vacant. The OAR has a budgeted staff of 140 employees, but as of May 19, 2006, there were only 112 employees. This is a vacancy rate of 20%; the December 2002 BOE report found that "The high vacancy rate for assessment positions has adversely affected the assessment of property." Hiring a new appraiser under the current civil service system takes about six months. Candidates for jobs are lost due to the lengthly hiring process. In addition, there are few mid-level appraisers to replace senior appraisers as they retire.
- 2. Standardized Filing and Appraisal Procedures: Procedures for filing, retrieving, and securely storing records are not standardized. Procedures for conducting appraisals vary from desk to desk. As of the writing of this report, there are thirty-six real property appraisers, each of whom has his/her own approach and interpretation of appraisal methods for estimating property values, and own procedure for record keeping. As previously noted by the BOE, "There is no policies or procedures manual. Staff within each unit determines their own arbitrary minimum value for assessing new construction." Within the past year the new assessor-recorder has created a Standards and Quality Control Group to begin development of standards for the OAR's operations. This group is making progress; the Civil Grand Jury received its draft Operations Manual (undated) for new construction assessment standards.

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⁶ Civil Grand Jury interview with the BOE, November 28, 2005.

- 3. Information Technology: Computer systems are ineffectively used. The OAR uses the EZ Access computer sytem for record keeping, but lacks internal programming staff and has only one operator capable of running the OAR's I.B.M. AS400 computer. Furthermore, there is no written user's manual within the OAR, most of the staff are not content with the system, and many think the system should be replaced.
- 4. Handling of Appeals: The amount of time consumed by the appeals process is excessive. The OAR represents the city before the Assessment Appeals Board, with some assistance from the city attorney's office, as well as private consultants, who have particular areas of experise. Top flight, expert attorneys and private appraisers represent major property owners, and often the OAR's advocates are "out gunned." This unbalanced situation could certainly be greatly improved by better staff preparation of appraisals and appeals, by training, by a more consistent approach to valuation procedures, and by working diligently with property owners to settle appeals administratively.

From our interviews it soon became apparent to the Civil Grand Jury that an incessant "push-pull" struggle exists in two major areas of the OAR's workload. As we see it, the "push" is to keep on top of the daily appraising and assessing required in order to be within the four-year statute of limitations. The OAR has four years from completion of new construction or change of ownership reported to the city in which to appraise and reassess property for tax purposes. If the appraisal or reassessment is done within four years, then the new valuation applies from the date construction was completed or ownership changed, and the city's treasurer/tax collector bills the property taxes retroactively. If the property is not appraised and reassessed within four years from the date construction was completed or ownership transferred, the treasurer/tax collector may not bill and collect taxes on the property that are more than four years from the date the new construction or transfer is finally assessed.

On the other hand, the "pull" that is diverting scarce manpower resources from appraising, assessing and reassessing is the two-year statute of limitations for deciding appeals that property owners bring before the Assessment Appeals Board. The number of appeals will typically spike during a weakening local economy and/or a softening of commercial or residential real estate markets. If the OAR and property owner do not reach agreement during a disputed assessment, the property owner can then take his/her case before the Assessment Appeals Board, which according to statute must decide the appeal within two years. The property owner may agree to waive the two-year deadline, but is not obligated to do so, and many do not. Without a waiver, particularly in cases involving complex high-value properties, the OAR is under pressure to defend its assessed value before the Assessment Appeals Board prior to the two-year deadline. During the past fiscal year, 2004-2005, there were 1,683 appealed assessments that the OAR had to defend. Of this number, 1,198 or 71.18% were settled without a hearing. If the two years pass without a settlement or decision, then the OAR must enroll the property owner's estimate of value stated on the appeals application.

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⁷ Office of the Assessor-Recorder, 2005 Annual Report, page 13, May 2006.

The OAR needs guidance and discipline, which have been lacking for well over a decade, and it needs accountability to correct longstanding problems that are costing the city millions of dollars in lost revenue annually. The Civil Grand Jury has confidence in the newly-elected assessor-recorder and his abilities. We hope this call to action will be heeded.

V. Findings and Recommendations

The Civil Grand Jury submits to the people of the City and County of San Francisco and to the city's government the following findings and recommendations for the Office of the Assessor-Recorder.

1. Most Critical Concerns: Assessment Backlogs and BOE Recommendations

Findings:

- 1-1a: In the words of an official of the BOE, the OAR has an unusually large backlog of properties with new construction needing appraisal and reassessment compared to other counties with similar total assessed valuation. As of March 2006, the number of parcels awaiting processing was approximately 26,600, including approximately 6,800 properties with new construction, having an estimated value of \$1 billion, and 3,800 properties with changes of ownership, having a current assessment roll value of approximately \$8.14 billion. The remaining approximately 16,000 properties require preparatory processing before appraisal. Some of these properties may be tax exempt since they are publicly-owned by the Redevelopment Agency or similar tax-exempt entities.
- 1-1b: The current assessor-recorder publicly stated in March 2006 that the backlog of properties needing appraisal and reassessment will be cleared within the next 24 months. This goal is dependent on hiring five new appraisers and two appraiser clerks. (See page 13 for findings and recommendations regarding staffing.)
- 1-1c: The OAR has set up a special team to process the backlog for new construction. The team consists of six of the OAR's seven principal appraisers who meet with a deputy assessor-recorder approximately every other day. These principal appraisers oversee the work of the senior and lower level appraisers.

RECOMMENDATIONS:

1-1a: Give <u>highest priority</u> to the effort to clear the backlog of appraisals and reassessments within the next 24 months, doing the highest value properties first.

1-1b: Measure and compare the productivity of the special appraisal team with the general productivity of the rest of the appraisal staff. Adopt for general use any changes that are shown to increase productivity and quality.

Findings:

- 1-2a: Change of ownership and sale price are recorded at the close of escrow or recording of a deed.
- 1-2b: The OAR takes from one to three years to reassess the property and issue a corrected tax bill. To be billed retroactively years after a transaction can cause hardship to the taxpayer. In addition, the city loses interest on the money and use of the money that should have been collected earlier.

RECOMMENDATION:

1-2: Make the process from recording a sale to the actual reassessment seamless and, for non-complex properties, complete it within days or weeks, not months or years.

Findings:

- 1-3a: The BOE reviews the OAR every five years for compliance with state law and reports its findings and recommendations.
- 1-3b: In 2004 the BOE conducted a very limited review of the OAR related to actions of the previous assessor-recorder. In late 2005 the BOE conducted a full-fledged scheduled review and anticipates publication of its new report in mid-2006.
- 1-3c: The OAR has not implemented numerous recommendations from the BOE's 2002 report, including several significant recommendations as previously cited in this report.

RECOMMENDATIONS:

- 1-3a: Promptly comply with the recommendations from the BOE.
- 1-3b: Upon completion of the implementation of the BOE's recommendations, the assessor-recorder should request the BOE to re-survey the OAR to insure compliance with its recommendations. Request this off-cycle survey as soon as possible, perhaps within the next 18 to 24 months, before the next five-year survey in 2010-2011.

2. Office Procedures

Findings:

- 2-1a: The OAR does not have written procedures or processes for appraisers and other OAR staff to efficiently and effectively perform their job duties.
- 2-1b: Although the assessor-recorder has created a Standards and Quality Control Group within the OAR, headed by a senior staff employee, to develop uniform standards for day-to-day operations, and some standards have been drafted, no such manual currently exists.

RECOMMENDATIONS:

- 2-1a: Establish a desk manual of responsibilities, procedures and processes for each job and/or task in the OAR. Develop this manual using best practices and office procedure manuals from well-regarded assessor's offices in other Bay Area counties, such as Contra Costa County, Santa Clara County and Alameda County, and using resources available from the California Assessors' Association and the BOE.
- 2-1b: Distribute the desk manuals to all employees and implement training of personnel in the standardized procedures and processes developed by the Standards and Quality Control Group.

Findings:

- 2-2a: Each appraiser has his/her own approach and interpretation of appraisal methods for estimating property values, and own procedure for record keeping. The lack of standardized procedures and record keeping results in inconsistent assessment.
- 2-2b: The OAR lacks an adequate quality control program to ensure that appraisals and assessments are accurate, timely and consistent.

RECOMMENDATIONS:

- 2-2a: Complete the previously discussed employee desk manuals and include standards for appraisal procedures, that comply with state law and BOE standards.
- 2-2b: Develop and implement a quality control program to ensure the OAR takes consistent positions with all taxpayers and before the Assessment Appeals Board.
 - 2-2c: Develop and implement standards for record keeping.

Finding:

2-3: There are no performance standards for appraisal positions.

RECOMMENDATIONS:

- 2-3a: The OAR's newly created Standards and Quality Control Group should develop performance standards to measure quality and productivity of individual appraisers.
- 2-3b: The assessor-recorder should implement an employee performance evaluation program based on the performance standards developed by the Standards and Quality Control Group.

Finding:

2-4: There are predictable seasonal surges and lulls in demand in various parts of the OAR. (For example, there is a surge in applications for exemptions, such as for senior citizens and owner-occupied property, during the two to four month period before October first of each year.)

RECOMMENDATIONS:

- 2-4a: Cross-train staff and rotate staff to meet predictable seasonal variations in demand.
- 2-4b: Job descriptions and labor agreements with the bargaining units representing the OAR's employees should provide for cross-training and seasonal rotation to meet peak demands.

Findings:

- 2-5a: Job descriptions of appraisers, auditors, and other staff are out of date.
- 2-5b: Civil service procedures for updating job descriptions are perceived by the OAR's managers as an unduly long process.

RECOMMENDATION:

2-5: Bring job descriptions up to date. The OAR management staff should update descriptions internally and present them to the Department of Human Resources for approval. Solicit job descriptions from other large counties to save time and help develop accurate job descriptions.

Findings:

2-6a: The Department of Building Inspection provides the OAR with information regarding new construction, such as building permit data, weekly.

2-6b: The OAR's appraisers should obtain a copy of the floor plan from the Department of Building Inspection to accomplish their work when new construction is involved. Currently, this floor plan must be specifically requested for each construction project.

RECOMMENDATION:

2-6: The Department of Building Inspection should provide a digitized or scanned copy of floor plans for new construction along with other permit data as part of its weekly computerized transmittal of data to the OAR.

Finding:

2-7: The Department of Building Inspection is currently evaluating proposals for new computer systems.

RECOMMENDATION:

2-7: The Department of Building Inspection should select a computer system that will transfer all needed data smoothly to the OAR in a timely manner. The Department of Building Inspection's computer system evaluation committee and the OAR's representative on the committee should ensure that selection criteria for a new computer system have the capability to handle such data transfer.

Findings:

- 2-8a: Cost estimates given on building permits are used by the Department of Building Inspection solely to establish permit fees. These estimates are then forwarded to the OAR.
- 2-8b: The OAR send a questionnaire to some, but not all, property owners asking for information about construction projects relevant to the appraisal of new construction. Some property owners simply repeat the value of the pre-construction estimates used to obtain permits from the Department of Building Inspection.

RECOMMENDATIONS:

- 2-8a: The OAR should <u>always send a questionnaire</u> to property owners, require the questionnaire to be signed <u>under penalty of perjury</u>, (to discourage the use of "low ball" pre-construction estimates from becoming part of the permanent record), and require the questionnaire to be returned within 30 days.
- 2-8b: The questionnaire should request a detailed description of the project and building materials, a line item cost breakdown for the project (including costs incurred for seismic upgrades, fire and life safety upgrades, handicapped access improvements and other exclusions from new construction under the Revenue and Taxation Code and BOE

regulations), how much space has been added, and other information relevant to the value of the new construction.

3. Information Technology

Findings:

- 3-1a: The OAR uses a packaged computer system, EZ Access, for record keeping. This system is used by other large California counties such as Los Angeles and San Mateo, with vendor modifications.
- 3-1b: The OAR lacks internal programming staff for EZ Access and only one person in the OAR is authorized and capable of running the EZ Access I.B.M. AS400 computer. There is no written user's manual available for the EZ Access system in the OAR.
- 3-1c: Although the EZ Access computer system has been installed for over five years, the OAR staff approaches the system with vague feelings of discontent.

RECOMMENDATIONS:

- 3-1a: Obtain a user's manual from the vendor of the system, Hamer Enterprises, McAllen, Texas.
- 3-1b: After receiving a user's manual, provide mandatory computer training for all personnel who use EZ Access. Cross-train staff so that they are functional in all relevant or critical aspects of the system and can be assigned to different tasks in the OAR as workload and priorities demand.
- 3-1c: After the staff is educated on the EZ Access system, an office-wide study should be conducted to determine what if anything about the system is causing staff discomfort and to solicit input on potential enhancements. Then, work with the vendor, Hamer Enterprises, to make appropriate changes.

Finding:

3-2: Consideration is being given to purchasing a new system to replace the EZ Access system. It was purchased from Easy Access, Inc., in 1996, and has cost the city \$5.7 million.8

RECOMMENDATION:

3-2: Do not buy a new system until the OAR determines the current system is unsatisfactory to meet the OAR's needs and cannot be modified.

Finding:

⁸ Peter Byrne, "A Taxing Problem," S.F. Weekly, February 20, 2002.

Finding:

3-3: The computer systems of the separate recording functions of the OAR are not currently fully compatible with the EZ Access system, causing unnecessary work when properties change ownership and require reassessment.

RECOMMENDATION:

3-3: Obtain programming assistance to have relevant data entered in the recorder's system automatically updated in the OAR's EZ Access system.

4. Staffing

Findings:

- 4-1a: The OAR has 112 employees out of a budgeted staff of 140 employees, leaving 28 positions unfilled as of May 2006.
- 4-1b: The assessor-recorder has an immediate need to fill seven new positions as noted in Finding 1-1b on page 7.

RECOMMENDATIONS:

- 4-1a: Determine productivity and staffing level appropriate to provide timely service and keep appraisals and assessments up to date.
- 4-1b: Seek to employ personnel according to the determined need, which might be different than the 140 budgeted staff positions.
- 4-1c: As soon as possible, fill seven new positions required to reduce backlogs of properties needing appraisal and reassessment.

Findings:

- 4-2a: The OAR lacks qualified mid-level appraisers to replace the more senior appraisers as they retire.
- 4-2b: Hiring a new appraiser under the current civil service system takes about six months. Candidates for jobs are lost due to the lengthy hiring process. The mayor has expressed intent to reduce civil service hiring time to sixty days, and a new rule has been developed by the Department of Human Resources and approved by the Civil Service Commission, which will enable the city to administer examinations for permanent employment within approximately sixty days instead of six months. The city will be able to hire more quickly, allowing it to compete more effectively with other employers to obtain the most qualified applicants. This will result in fewer temporary and provisional

hires, ensuring a more stable and responsive workforce as well as a fairer and better regulated hiring process.

RECOMMENDATIONS:

- 4-2a: Hire experienced mid-level appraisers to move to upper level positions as senior staff retires.
- 4-2b: Under the new civil service rule, work to reduce the hiring time to 60 days or less.

5. Backlog of Appeals

Findings:

- 5-1a: Resolution of valuation differences with taxpayers varies with appraisers. Some appraisers make an effort to resolve valuation differences with taxpayers and others refuse to negotiate, resulting in the unnecessary filing of appeals to the Assessment Appeals Board.
- 5-1b: Of the almost 1,700 assessment appeals closed in fiscal year 2004-2005, approximately 70% were resolved without a hearing.

RECOMMENDATION:

5-1: Office policy should be <u>to always attempt</u> to resolve taxpayer valuation disputes at the appraiser level. Forcing taxpayers to file appeals with the Assessment Appeals Board should be a "last resort."

Findings:

- 5-2a: For assessment appeals for commercial property, the OAR often lacks adequate documentation of how the appraiser arrived at capitalization rates, known as cap rates, used in the income approach for estimating value.
- 5-2b: The OAR would prevail more often if it had historical records of how it arrived at cap rates for each case that comes before the Assessment Appeals Board.
- 5-2c: The OAR lacks adequate quality control procedures and takes inconsistent positions in appeals.

RECOMMENDATION:

5-2: On appeals, the OAR should have adequate documentation to support its valuations. For each appeal, the OAR should maintain a historical record of cap rates and how they are determined, and use this database to establish office standards for all appeals.

Finding:

5-3: Except for trade secret information received in closed session, all information submitted to the Assessment Appeals Board is public information and, if relevant, can be used in any other matter brought before it. The OAR does not track or keep a record of this information for use on subsequent appeals.

RECOMMENDATION:

5-3: Keep records of relevant public information and use where appropriate. Investigate modifications to the EZ Access system to store, coordinate and retrieve such background data.

Findings:

- 5-4a: The OAR has been frequently "out gunned" by appellants' professional advisors in appeals of valuations exceeding \$100,000,000.
- 5-4b: The quality of presentations in such appeals can make a difference in the results obtained. The OAR has used "experts" who were not qualified and whose testimony was consequently given little or no weight by the Assessment Appeals Board.
- 5-4c: When the OAR seeks the assistance of legal counsel on appeals, it often does not do so far enough in advance of the hearing date for counsel to assist the OAR's staff to adequately prepare the case for hearing.

RECOMMENDATION:

5-4: Assure that the OAR's private consultants are fully qualified for the work they are to do and that they and city counsel have adequate time to prepare. Retain records of which consultants are most cost effective and productive for the city. Future hiring of these consultants will potentially save the city money and increase productivity.

Finding:

5-5: The OAR lacks an adequate number of qualified staff to prepare and defend appeals.

RECOMMENDATION:

5-5: Determine the number of qualified personnel needed to process appeals and hire sufficient staff for that task. When necessary, outsource to private appraisers and expert consultants.

Findings:

- 5-6a: The OAR does not conduct pre-hearing discovery, (for example: obtaining comparable sales information, lease revenue and operating cost information, and vacancy rate information), and, consequently, is not as well prepared as the opposition for many hearings before the Assessment Appeals Board. This further creates situations where cases can be ambushed at hearing with information the OAR appraiser did not anticipate.
- 5-6b: The OAR staff will, on occasion, arrive at appeal hearings without work papers and without adequate documentation to substantiate a valuation.

RECOMMENDATIONS:

- 5-6a: Have staff appearing before the Assessment Appeals Board take training on how to be an effective advocate and witness. Solicit advice from the city attorney and the California Assessors' Association regarding formal training programs.
- 5-6b: Conduct pre-hearing discovery except where the expense is not warranted by the valuation under appeal or extenuating legal reasons.

6. Additional Concerns

Finding:

6-1: The OAR has begun making use of the resources of the California Assessors' Association since the current assessor-recorder took office.

RECOMMENDATION:

6-1: The OAR should actively participate in the California Assessors' Association and use the resources and connections that participation affords.

Finding:

6-2: The OAR has not published an annual report to the public or Board of Supervisors in recent history, but has just published an annual report for 2005 and intends to continue to publish an annual report each year.

RECOMMENDATION:

6-2: Commencing with the 2005 Annual Report, publish a report annually and include backlog data, including the number and location of parcels, value, and length of time in system. Make this report available on the city's Web site.

Findings:

- 6-3a: Many of the OAR's employees are behind in Continuing Education Units required for state certification of appraisers. As of 2002, the state may take away certification from those who are not maintaining their continuing education.
- 6-3b: The BOE noted that approximately 40% of the OAR's appraisal staff will be deficient in training hours as of July 1, 2005.
- 6-3c: Appraisers who receive an Advanced Certificate only need 12 hours of continuing education as opposed to the 24 hours of continuing education required for appraisers without an Advanced Certificate.

RECOMMENDATIONS:

- 6-3a: Require each appraiser to bring his or her continuing education requirements up to date within the next 12 months.
- 6-3b: Do not permit appraisers to fall behind in fulfilling their state-mandated continuing education requirements.
- 6-3c: Include in job descriptions a requirement that appraisers keep their continuing education requirements current as a condition of employment.

VI. Response Requirements

Responses to the recommendations in this report are required from the Board of Supervisors and city offices and departments in accordance with the following list and state law. Responses are to be in writing and addressed to the Honorable Robert Dondero, Presiding Judge, Superior Court of California, City and County of San Francisco, San Francisco Civic Center Courthouse, 400 McAllister Street, San Francisco, California, 94102.

Board of Supervisors: 90 days.

Office of the Mayor: 60 days.

Office of the Assessor-Recorder: 60 days. Respond to all recommendations.

Department of Building Inspection: 60 days. Respond to recommendations 2-6 and 2-7.

VII. Glossary and Acronyms

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⁹ State Board of Equalization, Report of the Special Survey of the Office of the Assessor-Recorder, City and County of San Francisco, page 8, March 2005.

State Penal Code, Sections 933 (c) and (d).

Appraisal: The estimated value of a property determined by an appraiser.

Appraiser: The public official who estimates the value of a property.

Assessed Value: The taxable value of property upon which the tax rate is applied.

Assessor: The public official responsible for appraising property for tax purposes.

Assessment Appeals Board: The board that hears arguments, reviews documentation, and sets assessed values for properties when property owners disagree with the value set by the OAR.

Board of Equalization: The board that administers the state's tax and fee programs, including sales and usage taxes, property taxes, and special taxes.

Capitalization Rate: "Cap" rate is a measure of risk to the building owner/investor; that is, how many years will it take to realize return on investment. The higher the cap rate, the lower the value.

New Construction: The construction of new buildings, additions to existing buildings, or alterations which convert the property to another use or extend the economic life of the improvement, is reassessed, establishing a new base year value for only that portion of the property.

Personal Property: Any property except real estate, including airplanes, boats, and business property such as computers, supplies, furniture, machinery and equipment. (Most business inventory, household furnishings, personal effects, and pets are exempt from taxation.)

BOE: Board of Equalization, State of California.

OAR: Office of the Assessor-Recorder, City and County of San Francisco.

VIII. Appendices

Appendix A: For the general information of the reader, attached to this report is the Executive Summary of Recommendations from the Board of Equalization, in its report, Assessment Practices Survey of the City and County of San Francisco, December 2002.

Appendix B: Two "Responsibility" charts for the Office of the Assessor-Recorder are also attached to this report. These charts are from the OAR's 2005 Annual Report, pages 18 and 19, May 2006. The charts give the reader a general concept of the size and complexity of the OAR.

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

RECOMMENDATION 1:	Fill vacant assessment positions23
RECOMMENDATION 2:	Task the assessment standards section with the responsibilities of standards and quality control
RECOMMENDATION 3:	Develop a comprehensive policies and procedures manual25
RECOMMENDATION 4:	Submit BOE-prescribed form checklists
RECOMMENDATION 5:	Implement a system to control access to appraisal records27
RECOMMENDATION 6:	Request that the board of supervisors repeal the resolution imposing an assessment appeal filing fee
RECOMMENDATION 7:	Request that the board of supervisors revise the disaster relief ordinance to conform to section 17030
RECOMMENDATION 8:	Grant disaster relief to all qualifying personal property31
RECOMMENDATION 9:	Grant disaster relief to property owners when they submit timely applications pursuant to section 17031
RECOMMENDATION 10:	Revise the <i>Notice of Proposed Escape Assessment</i> to include all of the information required by section 531.8(b)
RECOMMENDATION 11:	Cite the notation required by section 533 when enrolling escape assessments
RECOMMENDATION 12:	Cite the proper Revenue and taxation Code section when making roll corrections
RECOMMENDATION 13:	Report information regarding homeowners' exemption claims to the BOE as required by section 218.5 in a timely manner and in the proper format
RECOMMENDATION 14:	Process homeowners' exemptions in a timely manner34

RECOMMENDATION 15:	Legibly date-stamp welfare exemption claims when received	.34
RECOMMENDATION 16:	Thoroughly review each welfare exemption claim and supporting documents before granting the exemption	.34
RECOMMENDATION 17:	Apply the welfare exemption to qualified business personal property	.35
RECOMMENDATION 18:	Maintain a transfer list that meets the requirements of Section 408.1	.36
RECOMMENDATION 19:	Require that all recorded documents conveying title to real property contain the assessor's parcel number pursuant to section 11911.1.	.37
RECOMMENDATION 20:	Utilize the BOE-prescribed Change in Ownership Statement	37
RECOMMENDATION 21:	Use the date of death as the date of transfer as required by Section 63.1(c)(1)	38
RECOMMENDATION 22:	Distinguish between the transfer of principle residences and the transfer of property other than principal residences for parent/child and grandparents/grandchild transfers	.38
RECOMMENDATION 23:	Submit quarterly reports of base year value transfers to BOE, as required by section 69.5(b)(7)	39
RECOMMENDATION 24:	Ensure that all LEOP changes in control receive timely reappraisal.	.40
RECOMMENDATION 25:	Eliminate the backlog of assessable new construction	41
RECOMMENDATION 26:	Develop formal procedures for processing, valuing, and enrolling assessable new construction	.41
RECOMMENDATION 27:	Improve communications with agencies that issue building permits	42
RECOMMENDATION 28:	Eliminate internal building permit tracking numbers	43
RECOMMENDATION 29:	Appraise all construction in progress on the lien date	43
RECOMMENDATION 30:	Improve documentation pertaining to new construction	43
RECOMMENDATION 31:	Enroll all supplemental assessments	11

RECOMMENDATION 32:	Use the BOE-prescribed <i>Notice of Supplemental Assessment as</i> required by section 75.31(g)45
RECOMMENDATION 33:	Enroll supplemental assessments for all tenant improvements as required by section 75.11
RECOMMENDATION 34:	Assess timeshares at the lesser of their factored base year values or the current market values
RECOMMENDATION 35:	Develop written procedures for the valuation of major income-producing properties47
RECOMMENDATION 36:	Reassess timeshare projects when the cumulative interest and value transferred meets the requirements of section 65.148
RECOMMENDATION 37:	Improve the program for the discovery of taxable possessory interests
RECOMMENDATION 38:	Use market rents when valuing possessory interests in yacht harbors
RECOMMENDATION 39:	Cease the assessment of possessory interests on property owned By the California School of Mechanical Arts51
RECOMMENDATION 40:	Refer all reported structural and land improvement costs from the annual business property statement to the commercial property appraiser in the real property division for review
RECOMMENDATION 41:	Bring the mandatory audit program to current status as required by section 46954
RECOMMENDATION 42:	Complete an audit checklist for each audit55
RECOMMENDATION 43:	Process separate escape assessments and roll corrections for each year under audit
RECOMMENDATION 44	Include nonprofit organizations that meet the requirements of section 469 in the mandatory audit program55
RECOMMENDATION 45:	Audit taxpayers that fail to file property statements for three or more consecutive years
RECOMMENDATION 46:	Screen business property statements with electronically prepared attachments to ensure the statement is complete and fully executed pursuant to section 441.5

RECOMMENDATION 47:	Accept only appropriately signed property statements as required by rule 17257
RECOMMENDATION 48:	Exclude accounts that have business property at multiple locations from the direct billing program
RECOMMENDATION 49:	Send business property statements to direct billing accounts every fourth year
RECOMMENDATION 50:	Annually review the BOE's listing of equipment leased to state assesses
RECOMMENDATION 51:	Develop formal procedures for the discovery and assessment of apartment personal property
RECOMMENDATION 52:	Properly assess service station fixture improvements as improvements
RECOMMENDATION 53:	Apply the 10 percent penalty for the failure to file or late-filing of the BOE-prescribed <i>Vessel Property Statement</i> as required by section 463
RECOMMENDATION 54:	Annually appraise pleasure boats at market value62
RECOMMENDATION 55:	Correctly calculate the assessment of documented vessels as required by section 275.5 when the vessel owners submit late-filed affidavits
RECOMMENDATION 56:	Revise the Affidavit for 4 Percent Assessment of Certain Vessels to include filing deadline established by section 5563



Responsibilities



