



STATE BOARD OF EQUALIZATION
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August 6, 2001

JAMES E. SPEED
Executive Director

No. 2001/056

TO COUNTY ASSESSORS AND INTERESTED PARTIES:

UPDATE OF ASSESSORS' HANDBOOK SECTION 581,
EQUIPMENT INDEX AND PERCENT GOOD FACTORS

Annually, the Board of Equalization publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). The AH 581 contains cost indexes and percent good factors intended for use by assessors in valuing business personal property and fixtures.

Board staff has begun updating AH 581 for the 2002 assessment year. In response to a request from the California Assessors' Association, staff proposes to (1) combine the twelve separate classes of commercial equipment index factors currently listed in Table 1 of AH 581 into one average index factor for all commercial equipment; and (2) combine the six separate classes of industrial equipment index factors currently listed in Table 2 of AH 581 into one average index factor for all industrial equipment.

The purpose of combining the index factors would be to simplify the assessment of business property with minimal effect on the accuracy of the values derived. The variance between the categories is very small. For example, office equipment with an original cost totaling \$150,000, acquired at a rate of \$10,000 per year and valued using an average service life of twelve years, would have a total variance of only \$944 (1.21%) at the end of the fifteenth year, when comparing the total value calculated using the specific office equipment index from Table 1 of the existing AH 581 with the value derived using an average of all the commercial equipment indexes.

Please provide us with any suggestions or comments regarding the proposed combination of index factors by August 31, 2001. Staff will review all comments received and meet with interested parties on September 14, 2001 to discuss any issues regarding these proposed changes. The meeting is scheduled to start at 9:30 a.m. in Room 122, Board of Equalization, 450 N Street, Sacramento.

As part of this year's update, staff is also reviewing information regarding the derivation of the commercial and industrial indexes to determine whether their use results in (a) replacement cost new or (b) reproduction cost new. Staff's findings on this matter will be addressed at the interested parties meeting.

It is anticipated that the AH 581 update process will proceed as follows:

- Comments due from interested parties by August 31, 2001.
- Meeting with interested parties on September 14, 2001.
- Staff to submit an issue paper and other required documents by October 10, 2001 for the next Property Tax Committee meeting.
- The Board's Property Tax Committee will hear presentations on unresolved issues at its October 24, 2001 meeting.

This letter and all future letters regarding this project will be posted to the Board's Web site (www.boe.ca.gov) and can be accessed by way of the following links: (1) Property Taxes, (2) Property Tax Committee Work Plans, (3) Property Tax Committee Work Plans 2001. If you have any questions, comments, or suggestions regarding this project, please contact Mr. Gordon Ferguson at (916) 322-3815; gordon.ferguson@boe.ca.gov or Mr. Ron Ridley at (916) 324-5841; ron.ridley@boe.ca.gov.

Sincerely,

/s/ Richard C. Johnson

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:gf