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TO COUNTY ASSESSORS:

77/52

THE RAMIFICATIONS OF THE AMERICAN AIRLINES, INC. v. COUNTY OF LOS ANGELES DECISION ON THE VALUATION OF POSSESSORY INTERESTS

The decision of the appellate court in the case of *American Airlines, Inc. v. County of Los Angeles*, 65 Cal. App. 3d 325 (December 27, 1976), has raised questions concerning the validity of Rule 23(b) of Title 18 of the California Administrative Code, in regard to the use of a "reasonably anticipated term of possession" in the valuation of other possessory interests and more specifically in the valuation of other airport possessory interests.

The court ruled that the assessors' method of valuation in which the income was capitalized over a reasonably anticipated term that did not coincide with the actual term of the lease was "...an unlawful and unconstitutional application of Rule 23...." The case was complicated by the fact that the assessor had used the actual remaining term of the lease in his calculations from 1963 until 1973, and then shifted to a 25-year anticipated term of possession.

In our view the court did not directly state that the rule, per se, is invalid. The case should be limited to the facts therein and the underlying theory of Rule 23(b) remains unaltered.

We recommend that those counties with similar airport leases review the decision in order to avoid the pitfalls cited, and concentrate their efforts on evidentiary items (1) through (4) as listed in the rule to insure that a reasonably anticipated term is selected.

Sincerely,

Jack F. Eisenlauer

Jack F. Eisenlauer, Chief
Assessment Standards Division

JFE:fp