



**STATE BOARD OF EQUALIZATION  
STAFF LEGISLATIVE BILL ANALYSIS**

Date Introduced:	<b>2/20/03</b>	Bill No:	<b>SB 593</b>
Tax:	<b>Property</b>	Author:	<b>Ackerman</b>
Board Position:		Related Bills:	

**BILL SUMMARY**

With respect to **personal property** that is owned by a commercial air operator, as defined, this bill would:

- Transfer assessment responsibility from the local county assessor to the Board of Equalization.
- Establish special revenue allocation procedures to provide for distribution solely to the specific local tax rate area where the property is located.

**ANALYSIS**

**Current Law**

**Part 1. Assessment Jurisdiction and Procedures**

Under current assessment practices, local county assessors assess both the real and personal property owned or controlled by a commercial air operator.

**Real property** owned by commercial air operators (air passenger carriers and commercial freight carriers) could include:

- real property directly owned
- possessory interests in publicly owned airports<sup>1</sup>
- real property fixtures (personal property affixed in such a manner that it becomes a part of the real property)

**Personal property** owned by commercial air operators (air passenger carriers and commercial freight carriers) includes:

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<sup>1</sup> Commercial air operators typically have a general possessory interest in publicly owned airports from which they operate as well as possessory interests in site-specific facilities at the airport such as terminal, cargo, hangar, automobile parking lot, storage and maintenance facilities and other buildings and the land leased by an airline.

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- certificated aircraft<sup>2</sup>
- all other business personal property<sup>3</sup>

Revenue and Taxation Code Section 401.15 specifies a valuation methodology for certificated aircraft. These provisions are applicable for assessed values determined for fiscal years 1997-98 to 2003-04. Consequently, commencing with the 2004-05 fiscal year, no methodology will be specified for certificated aircraft. Revenue and Taxation Codes 1150 - 1156 provide additional laws for assessing related to situs and allocation procedures.

Revenue and Taxation Code Section 107.9 specifies a valuation methodology for determining the value of possessory interest in publicly owned airports for certificated aircraft operators. This section of code is limited in its application to specified fiscal years.

Section 19 of Article XIII of the California Constitution specifies that the Board of Equalization is to assess:

- certain types of property<sup>4</sup> and
- property owned or used by certain kinds of companies.<sup>5</sup>

It also provides that the Legislature may authorize Board assessment of property owned or used by other public utilities.

Section 2 of Article XIII provides that the Legislature may provide for property taxation of all forms of tangible personal property, shares of capital stock, evidences of indebtedness, and any legal or equitable interest therein not exempt under any other provision of this article. The Legislature, two-thirds of the membership of each house concurring, may classify such personal property for differential taxation or for exemption.

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<sup>2</sup> Revenue and Taxation Code Section 1150 defines certificated aircraft as aircraft operated by a domestic or foreign air carrier engaged in air transportation while there is in force a certificate or permit issued by the Civil Aeronautics Board of the United States, or its successor, or a certificate issued by the California Public Utilities Commission authorizing such air carrier to engage in such transportation.

<sup>3</sup> Such as unlicensed surface vehicles, computers, ramp equipment, passenger service equipment, maintenance and engineering equipment, communications and meteorological equipment, ground equipment, furniture, and supplies. Additionally, property at off-airport locations such as distribution centers and drop-off boxes for the package carriers.

<sup>4</sup> The types of property are pipelines, flumes, canals, ditches and aqueducts lying within two or more counties.

<sup>5</sup> Property owned or used by regulated railways, telegraph, or telephone companies, car companies operating on the railways in this state, and companies transmitting or selling gas or electricity.

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## Part 2. Revenue Allocation

Under current law, the allocation procedures for property tax revenues derived from state assessed property are different than those for locally assessed property. Generally, property tax revenues from locally assessed property are allocated by the situs of the property and accrue only to those taxing jurisdictions in the tax rate area where the property is located. In contrast, the general procedure for allocating revenues from state assessed property is to share any "incremental growth" in property tax revenues occurring after 1987 with nearly all governmental agencies (i.e., "county-wide") in the county according to a statutory formula.

### Proposed Law

#### Part 1. Assessment Jurisdiction

This bill would add Section 721.51 to the Revenue and Taxation Code to provide that the Board of Equalization would assess the personal property of a commercial air operator as defined in Section 5500 of the Public Utilities Code commencing with the lien date for the 2004–05 fiscal year.

#### Part 2. Revenue Allocation

This bill would add Section 100.51 to the Revenue and Taxation Code to provide that the property tax revenue from this property would be allocated by tax rate area situs rather than the county-wide system of revenue allocation used for most other state assessed property.

### In General

#### Assessment Jurisdiction

Under existing law and regulations, some property is assessed by the Board of Equalization (i.e., "state assessed") and some property is assessed by local county assessors (i.e., "locally assessed"). Certain elements of taxation differ depending upon whether property is state or locally assessed. (See table in Comments section.)

Section 19 of Article XIII of the California Constitution specifies that the Board of Equalization is to assess certain types of property and property owned or used by certain kinds of companies. Any property subject to property tax that is not within the Board's jurisdiction, or where the Board declines to assert jurisdiction, is subject to property tax assessment by the local county assessor. Section 19 also provides that:

**The Legislature may authorize Board assessment of property owned or used by other public utilities.**

Section 3 of Article XII (Public Utilities) of the California Constitution provides that:

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**Private corporations and persons that own, operate, control, or manage a line, plant, or system for the transportation of people or property, the transmission of telephone and telegraph messages, or the production, generation, transmission, or furnishing of heat, light, water, power, storage, or wharfage directly or indirectly to or for the public, and common carriers, are public utilities subject to control by the Legislature. The Legislature may prescribe that additional classes of private corporations or other persons are public utilities.**

Thus, it appears that commercial air operators could be considered "public utilities" under this definition. Further, even if they were not, the Legislature could "prescribe that additional classes of private corporations or other persons are public utilities."

Outside of any legislation that specifies Board assessment of property, the Board's determination of jurisdiction does not rest on the outward appearances of a property or company, but rather on whether the Board concludes that Section 19 of Article XIII provides the Board with jurisdiction to assess.

### **Certificated Aircraft**

Under existing law, all property is taxable unless there is a specific constitutional or statutory exemption for the property. The determination of taxability is generally made as of the lien date, January 1 of each year. Certificated aircraft used by air carriers is subject to taxation when in revenue service in California. Generally, certificated aircraft are commercial aircraft operated by air carriers for passenger or freight service. The term "certificated aircraft" is defined in Revenue and Taxation Code Section 1150 as

. . . aircraft operated by an air carrier or foreign air carrier engaged in air transportation, as defined in subdivisions (3), (5), (10), and (19) of Section 101 of Title I of the "Federal Aviation Act of 1958" (P.L. 85-726; 72 Stat. 731), while there is in force a certificate or permit issued by the Civil Aeronautics Board of the United States, or its successor, or a certificate or permit issued by the California Public Utilities Commission, or its successor, authorizing such air carrier to engage in such transportation.

Certificated aircraft are valued for purposes of property taxation under a "fleet" concept. This means that the basis of the assessed value is not the value of any single aircraft owned by an air carrier, but rather the value of **all** aircraft of each particular fleet type<sup>6</sup> (i.e., all aircraft owned of an identical make and model regardless of age) that is flown into a particular airport. Aircraft fly in and out of the State, and no single or particular aircraft remains located in the State on a permanent basis. Under the "fleet" concept, the types of aircraft of an air carrier that have gained situs in California by their entry into revenue service are valued as a fleet and then only a portion of the entire value of the fleet is ultimately taxed to reflect actual presence in California.

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<sup>6</sup> Types are grouped by make and model. For example, Boeing 737-300s and 737-500s, Boeing 747-400s; Airbus A300-F4-600S; McDonnell Douglas DC 10-30s.

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Revenue and Taxation Code Section 401.15 provides the methodology for valuing certificated aircraft (which will expire on January 1, 2004) and Section 1152 provides an allocation formula to determine the frequency and the amount of time that an air carrier's aircraft makes contact and maintains situs within a county. Property Tax Rule 202 provides further details in the allocation procedure. Under current law, an allocation ratio is made up of two components: a ground and flight time factor, which accounts for 75% of the ratio, and an arrivals-and-departures factor, which accounts for 25% of the ratio. The sum of these two factors yields the allocation ratio, which is applied to the full cash value of a fleet of a particular type of aircraft operated by an air carrier and, thus, the calculation of the assessed value for that type of aircraft. The sum of the assessed allocated values for each make and model used by an air carrier, results in the total assessed value of the aircraft for that air carrier for a particular county.

An individual air carrier, Blue Sky Airlines, for example, may operate the following types of aircraft in its overall fleet: Boeing 737-300s and 737-500s, Boeing 747-400s, and Boeing 767-200s and 767-300s. Each of these types of aircraft are considered to be a fleet type. Thus, Blue Sky Airlines may have a fleet of 100 Boeing 737-500s, but only 30 of those aircraft may actually make contact in Sacramento County during the year. For purposes of property taxation in Sacramento County, the full cash value of all 100 of Blue Sky Airline's Boeing 737-500 aircraft is determined and the computed allocation ratio is applied to that value.

## Background

### Settlement Agreement

Prior to January 1, 1999, California law did not provide any specific assessment methodology procedure for valuing certificated aircraft or for valuing the operator's possessory interest in the publicly owned airport. In 1997-98, a group of counties and airline industry representatives met to resolve issues related to the property taxation of property owned and used by airlines which would be embodied in a written settlement agreement to dispose of outstanding litigation and appeals over the valuation of possessory interest assessments in airports and the valuation of certificated aircraft. The settlement agreement was codified in a three-piece legislative package:

**AB 1807** (Stats. 1998, Ch. 86; Takasugi)

- outlined the valuation procedures for certificated aircraft for a six year period
- included the monetary portion of the settlement agreement, and
- included extensive uncodified legislative findings and declarations.

**AB 2318** (Stats. 1998, Ch. 85; Knox) specified the assessment methodology for valuing the airlines' possessory interests in publicly owned airports.

**SB 30** (Stats. 1998, Ch. 87; Kopp) allowed counties and taxpayers to enter into written settlement agreements granting taxpayers tax credits.

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**Possessory Interest Methodology.** AB 2318 added Section 107.9 to the Revenue and Taxation Code to specify the assessment methodology for valuing possessory interests in publicly owned airports. These sections are operative indefinitely.

**Aircraft Assessment Methodology.** AB 1807 added Sections 401.15 to the Revenue and Taxation Code to outline the assessment methodology for valuing certificated aircraft to ensure statewide uniformity. Its provisions were effective for the 1998-99 through the 2003-04 fiscal years and becomes inoperative at the end of this year. Key provisions of Section 401.15 are noted as follows:

- **Valuation Standard.** Established a historical cost basis for valuing certificated aircraft. Specifically, for fiscal years 1998-99 through 2002-03, the value of certificated aircraft shall be presumed to be assessed at full market value if:
  - The aircraft original cost, as defined, is used as the basis for the assessment.
  - The original cost is thereafter adjusted by the producer price index for aircraft.
  - A 16-year straight-line percent good table was established to determine percent good.
  - Codified the calculation of minimum values for aircraft in service for at least eight years or more using values as specified, from the *Airliner Price Guide*, a commercially-prepared value guide for aircraft. (In some cases, this reduced the minimum aircraft values that had been previously used by counties.)
  - With respect to aircraft acquired under a sale/leaseback provision, the historical cost established is the cost stated in the agreement. However, commencing in 2003-2004 fiscal year, the historical cost established was increased by an amount equal to one-half of the difference between a taxpayer's book cost and the cost stated in a sale/leaseback agreement. (This part of the settlement agreement determined how aircraft subject to a sale-leaseback transaction - this issue was previously in dispute.)

**Airline Tax Credits.** AB 1807 also added Section 5096.3 to the Revenue and Taxation Code to provide the monetary portion of the settlement agreement, which related to both the personal and real property issues. Airlines received a \$50 million credit on future property tax liability that was used over a five year period in equal installments ending this year. The \$50 million was redeemed by airlines as credits on future tax liability. The following airlines participated in the settlement agreement: Alaska Airlines, Inc.; American Airlines, Inc.; Continental Airlines, Inc.; Delta Air Lines, Inc.; Federal Express Corporation, Northwest Airlines, Inc.; Trans World Airlines, Inc.; United Airlines, Inc.; United Parcel Service; U.S. Airways, Inc.; Wings West Airlines; Southwest Airlines; and America West Airlines. Participating counties extended the following tax credits:

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County	Amount
Alameda	\$4,455,110
Contra Costa	1,000
El Dorado	1,000
Fresno	264,630
Humboldt	500
Kern	33,540
Los Angeles	18,335,720
Monterey	148,560
Orange	2,916,995

County	Amount
Riverside	435,780
Sacramento	1,070,185
San Bernardino	1,991,405
San Diego	4,262,610
San Joaquin .	1,000
San Mateo	13,544,005
Santa Barbara	167,880
Santa Clara	369,080
Solano	1,000

**Tax Credits.** SB 30 added Revenue and Taxation Code Section 5103 to the Revenue and Taxation Code to provide general authority for counties and taxpayers to enter into written settlement agreements that provide taxpayers with a credit towards future tax liabilities rather than an immediate property tax refund. This general language was intended to preclude the need to introduce special purpose legislation to authorize other similar agreements in the future.

**COMMENTS**

1. **Sponsor and purpose.** This bill is sponsored by the Air Transport Association (ATA). Its purpose is to move property tax assessment responsibility for airline personal property to the Board of Equalization. According to the sponsor, the proposal would “increase efficiency and reduce administrative costs for both the airlines and the government, while not affecting the amount or distribution of state and local property tax revenue.”
2. **Differences between State and Local Assessment procedures.** The fundamental differences in state vs. local assessment is noted in the following table:

	State Assessment	Local Assessment
<b>Standard of Value</b>	<b><u>Personal and Real Property</u></b> Current Fair Market Value	<b><u>Personal Property</u></b> Current Fair Market Value  <b><u>Real Property (Including fixtures)</u></b> Acquisition Value Factored By No More than 2% per year or Current Fair Market Value, whichever is lower.

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	<b>State Assessment</b>	<b>Local Assessment</b>
<b>Revenue Allocation</b>	Unitary Base + "County Wide" Incremental Growth	Situs Based (local tax rate area)
<b>Value Setting</b>	Board Members	County Assessor
<b>Appeal of Value</b>	Board Members	Assessment Appeals Board
<b>Appeal Filing Deadline</b>	July 20 (Unitary Property) or September 20 (Nonunitary Property)	September 15 or November 30
<b>Mandatory Audits</b>	No	Yes
<b>Disaster Relief - Post Lien Date</b>	No	Yes
<b>Court Actions</b>	Trial <i>de novo</i>	Legal Issue – Trial <i>de novo</i> Factual Issue - Review of Administrative Record

3. **The sponsors indicate that the basis of the transfer of personal property to the Board is Section 2 of Article XIII of the Constitution.** Section 2 provides that the Legislature with a 2/3 vote may classify personal property for differential taxation or for exemption and that the intent of Section 2 of Article XIII would provide for the assessment of personal property by the Board. A transfer of personal property to the Board on this basis has not previously occurred. Currently, this bill is keyed as a majority vote. However, a 2/3 vote is required for the differential taxation or exemption of personal property if the Legislature determines that Section 2 is the basis for the transfer of assessment responsibilities from counties to the Board.
  
4. **It appears that the Legislature could nevertheless transfer the assessment of property owned by commercial air operators to the Board on the basis of the companies being a "public utility."** However, as noted in the table above, if real property were transferred to the Board, then the value standard would change to annual current fair market value. Thus, it is possible that either both the real and the personal property could be transferred to the Board or just the personal property under Section 19 of Article XIII which provides that the Legislature may authorize Board assessment of "property owned or used" by other public utilities. (However, Section 19 of Article XIII allows the Board to delegate to county assessors the duty to assess property *used but not owned* by a state assessee on which the taxes are to be paid by the local assessee, but it does not appear that any real property directly owned could be delegated to assessors.) Personal property is already valued at its current fair market value each year by the local county assessor since the value aspects of Proposition 13 only apply to real property. A key difference between state assessment and county assessment is that under county assessment the valuation provisions of Article XIII A (Proposition 13) apply, including establishing

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a base year value, a limit of 2% on annual increases, and valuation on the lower of fair market value or adjusted base year value. These provisions do not apply to state assessed property, which is valued annually at fair market value in accordance with the holding in the case of *ITT World Communications, Inc. v. San Francisco* (1985) 37 Cal.3d. 859.

5. **The assessment methodology for certificated aircraft codified in 1998 via a settlement agreement between counties and airlines is expiring.** Once the settlement agreement expires, no assessment methodology will be specified for certificated aircraft commencing with the 2004-05 fiscal year, whether certificated aircraft remain locally assessed or become subject to state assessment.
6. **This bill does not establish a valuation methodology for certificated aircraft if assessment responsibility is transferred to the Board.** The valuation of aircraft has been a contentious area. As noted in the codified legislative findings and declarations of AB 1807:
  - (1) Two of the most difficult and contentious property tax assessment issues in recent years have concerned the assessment of certificated aircraft and airline possessory interests \* \* \* .
  - (2) These issues have given rise to litigation and appeals challenging assessments involving hundreds of millions of dollars of property tax revenues.
  - (3) The uncertainty created by pending litigation and appeals over the assessment of airline property and possessory interests in publicly owned airports is disruptive to both airline industry tax planning and local government and school finance.

Given this history, it may be preferable to statutorily provide a valuation methodology to provide certainty and minimize future potential disputes.

7. **The Aircraft Advisory Subcommittee of the California Assessors' Association Standards Committee meets twice a year to determine and recommend values for certificated aircraft.** The subcommittee has existed since 1965. The subcommittee recommends values for statewide uniformity, but prior to the enactment of Section 401.15, assessors in individual counties were not required by law to use the suggested values. Airline representatives are annually given an opportunity to present market evidence relating to extraordinary obsolescence of specific aircraft types to the Aircraft Subcommittee. Counties note that differences in values between counties on personal property could result from differences in the information reported by the airlines to the counties or differences that have been discovered via an audit of the company.
8. **This bill would set a precedent of a bifurcated assessment system on the basis of classification.** There is no other bifurcated system of assessment on the basis of classification (i.e., real property vs. personal property ) between the Board and county assessors. In the assessment of intercounty pipeline property, there has been a bifurcation of the assessment between the pipeline itself and the pipeline lands and right-of-way since 1993. But this bifurcation is a result of the language in Section 19 of Article XIII of the Constitution, not because of a classification issue. In

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*Southern Pacific Pipe Lines, Inc. v. State Board of Equalization* 14 Cal.App. 4th 42 (1993), the court held that the term "pipelines" in Section 19 referred to the pipelines only, not to the underlying land or rights-of-way or to adjacent lands and improvements. Each county assessor, therefore, has jurisdiction to locally assess all lands and rights-of-way in his or her county over or through which pipelines cross. As a result, this bill would set a precedent in the assessment of personal property only for this industry.

9. **Other owners of personal property may similarly seek transfer of their personal property to the Board for assessment.** If the premise that the intent of Article XIII, Section 2 allows for Board assessment of any personal property, then other property owners may seek legislation to obtain Board assessment of their personal property holdings. For instance, state assessment may be attractive to companies that lease personal property in multiple counties, such as computer or copier equipment; certain classes of companies, such as manufacturers; types of property, such as tractors used in agriculture; or perhaps chain stores that operate in multiple counties, such as restaurant or retail establishments.
10. **If the Board is to assess the personal property of commercial air operators, it may be preferable to limit Board assessment to certificated aircraft for the following administrative reasons:**
  - In a state-county bifurcation of assessment responsibility, it establishes a bright-line that clearly defines property subject to state assessment, eliminating any issues and/or disputes in classifying specific items of property as an item of personal property or a real property fixture.
  - Other personal property has a fixed situs. It is only the aircraft that is mobile and where value must be apportioned.
  - It would eliminate the double taxation or escape assessment of property that may otherwise result from joint assessment responsibility.
  - The administrative efficiencies in the central assessment of aircraft is more apparent than the central assessment of all personal property. Information about an airline's fleet of aircraft is the type of information that is duplicative. If central assessment of either personal property or of aircraft is not enacted, perhaps central reporting procedures for aircraft could be explored as an alternative to reduce the operator's administrative reporting burdens.
  - Because this bill would require that property tax revenue be allocated by situs, airlines would still be required to report all non-aircraft personal property holdings separately for each location. Therefore, it does not seem the same level of cost savings could be achieved with other types of personal property because of the level of detail that would still be required to be reported.
  - State assessment of aircraft would not require the onsite inspections of property at each airport or other locations such as distribution facilities for package and freight carriers. However, assessing all of the personal property could require occasional onsite inspections of property at each airport as well as all other

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locations where personal property is located. Usually, a site inspection is considered a proper component of a complete audit.

- Counties are already inspecting all the miscellaneous properties since they assess the real property and the possessory interest. If both the Board and the assessor were to visit the locations costs would be duplicated.
- If assessment is not limited to aircraft, then the value allocation process will be more administratively complex since value would have to be allocated back out to hundreds of specific tax rate areas where the personal property is located, for instance all sites where the package and freight carriers operate, rather than the more limited approach of allocating to just those tax rate areas where airports are located.
- The value of the aircraft is the most significant portion of the personal property assessment, estimated at between 90% - 95% of the personal property assessment, and would likely be the subject of any future appeals and/or litigation. Therefore, airlines would have the benefit of "one appeal" and, potentially, one party to litigate matters in dispute. Further, the goal of uniform assessed values for aircraft for any one particular company in each county is still achieved.

**11. It is recommended that the operative date of these provisions be delayed to January 1, 2005.** If this bill is enacted as currently drafted, assessment responsibilities would be transferred effective January 1, 2004. As this bill would not probably be signed into law until mid-October, the Board and the counties would have less than three months to complete the transition to state assessment.

**12. This bill requires amendments to appropriately define the scope of the bill in terms of the companies and aircraft intended to be affected.** According to the sponsor, the language currently contained in the bill is a spot bill. According to information obtained from the California Public Utilities Commission (CPUC), the types of operators regulated by the CPUC under the definition of "commercial air operator" would not include the types of companies and aircraft that this bill is intended to address. The types of operators that would become subject to Board assessment would also need to be reconciled and be consistent with the definition.

**13. Cost Shifting.** Related to the cost of administration, the sponsors indicated that any increased costs to the Board for administration could be offset (or result in a net savings) by the state by reducing or redirecting the state's Property Tax Administration Grant Program monies to counties.

**14. Discovery of Charter/Nonscheduled Air Carriers.** It is often difficult for counties to discover charter and nonsecheduled air carriers since their flights are not publicly posted. Those discovery issues would be compounded at the Board level.

**15. The Practices of Other States.** According to the sponsors, some states have central assessment. The sponsors are compiling a list of the assessment practices of commercial air operators in other states, which they indicated they would share

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with the Board when completed. Some states exempt aircraft from property taxation, but some of these states may instead charge landing fees.

16. **Theoretically, one might expect the annual fair market value of personal property assessed by the Board to be the same as that determined by the local county assessor.** However, property appraisal is somewhat subjective and opinions of value differ. There is no guarantee that the values determined by the Board would be the same, higher, or lower than if the property was assessed by local county assessors.
17. **The Legislature has established the precedent of situs-based revenue allocations for certain stand-alone state assessed properties that were newly constructed after the county-wide revenue allocation system for state assessed property was established.** The Legislature has approved four exceptions to the revenue allocation system for state assessed property: Revenue and Taxation Code §100(i)<sup>7</sup>, (j)<sup>8</sup>, and (k)<sup>9</sup> and more recently, Section 100.9 for electrical generation plants, which was added by AB 81 (Stats. 2002, Chap. 57; Migden). These exceptions ensure that, for these specific projects, property tax revenue are allocated as if they were subject to assessment by the county assessor. Hence, the property tax revenues derived from these properties are allocated to the jurisdictions in the tax rate area where the property is located rather than being shared with all jurisdictions located in the county as “incremental growth.”
18. **Technical Amendment.** Section 755 and 756 of the Revenue and Taxation Code would also require amendment to reflect the special revenue allocation procedures.

755 (b) Notwithstanding subdivision (a), in making the estimate referred to in subdivision (a), the unitary value and nonunitary value of the property of regulated railway companies, ~~and~~ property subject to subdivisions (i), (j), and (k) of Section 100, Section 100.51, and Section 100.9 shall be allocated by revenue district.

756 (b) Notwithstanding subdivision (a), in making the roll referred to in subdivision (a), the unitary value and nonunitary value of the property of regulated railway companies, ~~and~~ property subject to subdivisions (i), (j), and (k) of Section 100, Section 100.51, and Section 100.9 shall be enrolled by revenue district.

## COST ESTIMATE

Pending.

<sup>7</sup> A computer center in the City of Fairfield (Pacific Bell).

<sup>8</sup> An education and training center in the City of Livermore (PG&E).

<sup>9</sup> For a proposed power plant in the City of Chula Vista (SDG&E), which was never constructed.

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**REVENUE ESTIMATE**

**Assessment Jurisdiction:** Theoretically, one might expect the annual fair market value of personal property assessed by the Board of Equalization to be the same as that determined by the local county assessor. However, property appraisal is somewhat subjective and opinions of value differ. There is no guarantee that the values determined by the Board would be the same, higher, or lower than if the property was assessed by local county assessors. An emerging issue in the assessment of aircraft is a deduction for "embedded software." According to counties, some property owners have sought a 2% to 10% reduction in aircraft values to account for non-taxable software (i.e., a computer program that is not a basic operational program under Section 995 and 995.2), which, to date, has not been granted. It is possible that, absent a specific statute or regulation on this matter as it relates to aircraft, and/or after the settlement agreement has expired, the Board and counties could reach a different administrative decision. To provide a frame of reference, it is estimated that the assessed value of certificated aircraft alone that is allocated to California totals approximately \$10 billion.

**Revenue Allocation:** Changes in property tax revenue allocation procedures is a zero sum game with winners and losers and this bill would ensure that the status quo is maintained. Therefore, local agencies that currently receive property tax revenue from this property would continue to receive the same percentage of revenue that is ultimately derived from the property.

Analysis prepared by:	Rose Marie Kinnee	916-445-6777	4/14/03
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Contact:	Margaret S. Shedd	916-322-2376	
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