

Business Property Valuation Factors

Background

The State Board of Equalization (Board) co-administers the property tax in California with the county assessors. Section 401.5 of the Revenue and Taxation Code requires that the Board issue to county assessors data relating to costs of property and other information to promote uniformity in appraisal practices and in assessed values throughout the state. In an effort to comply with section 401.5, the Board annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), which contains an index, percent good and valuation factors for various types of equipment. This handbook is used as a guide by county assessors' staff in the mass appraisal of personal property and fixtures for property tax purposes. For locally assessed property, the Cost Approach is the most widely used method of valuing personal property and fixtures.

- The equipment index factors published in AH 581 are used to convert a property's original cost to an estimate of Reproduction Cost New (RCN). Percent good factors, which are the compliment of depreciation factors, are then applied to the RCN to arrive at an estimate of value. The valuation factors are applied directly to the original cost of a property to arrive at an estimate of value. While the AH 581 contains index factors and percent good factors, currently it does not contain economic lives necessary to allow users to be able to determine which percent good factors in AH 581 to use to determine the value for the various categories of property/equipment.
- The Board was approached by three industries in 2005 to review current data to validate or update certain information contained in AH 581. Consequently, Budget Change Proposal 6 (approved in 2006) provided two positions on a two-year limited-term basis to create and participate on teams to conduct studies for the three industries. Each Team consisted of two Board representatives, two industry representatives, and two representatives from the California Assessors' Association. As a result of the studies the Board updated the Biopharmaceutical Equipment and Fixtures Valuation Factors contained in AH 581 at the July 2008 Board Meeting. The Semiconductor Manufacturing Equipment Valuation Factors were updated at the October 2008 Board Meeting. The Non-production Computer Study is still in progress.
- In the first part of 2008, the Board received requests from various industry groups to conduct valuation factor studies for additional categories of equipment. At its June 24, 2008 meeting, the Board directed staff to reallocate existing resources to conduct future valuation factor studies, and to develop procedures for these studies and to present the procedures to the Board. The Board approved the procedures at its September meeting.

- On November 5, 2008, staff held a meeting with interested parties to explore the possibility of including in AH 581 economic lives for various equipment categories.

Discussion Items

- Update of BCP 6 Valuation Factor Studies.
- Petition procedures and guidelines for future valuation factor studies.
- Summary of November 5 Interested Parties Meeting regarding economic lives in AH 581.