

Issue Paper Number 07-004



BOARD OF EQUALIZATION  
**KEY AGENCY ISSUE**

- Board Meeting
- Business Taxes Committee
- Customer Services and Administrative Efficiency Committee
- Legislative Committee
- Property Tax Committee
- Other

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## Definition of Non-Production Computers

### I. Issue

What definition of *non-production computers* should the Board adopt to define the scope of the computer valuation factors studies conducted pursuant to Budget Change Proposal 6 (2006-2007)?

### II. Staff Recommendation

Staff recommends that the attached definition of *non-production computers* be adopted (Attachment A).

### III. Other Alternative(s) Considered

Not Applicable

## IV. Background

The State Board of Equalization (Board) co-administers the property tax in California with the county assessors. The 58 county assessors are charged with the assessment of locally assessed real and personal property for taxation purposes, and resolution of appeals of property values at local levels in conjunction with county assessment appeals boards. The Board's role is advisory and does not include setting values for any locally assessed property or for resolving disputes over those assessments.

The Board is mandated by section 401.5 of the Revenue and Taxation Code to promulgate guidance for county assessors to follow in valuing locally assessed property, and for assessment appeals boards when equalizing locally assessed property. In an effort to meet that mandate, the Board annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), to use as a guide in the mass appraisal of personal property and fixtures. Among other data, AH 581 contains tables of valuation factors for non-production computers. The non-production computer equipment factors were developed in 1995 and last updated in 1997.

Industry representatives expressed interest for the Board to review current data to validate or update the information contained in AH 581 relative to the non-production computer valuation factors. Conducting studies based on current data will result in the ability to calculate more reliable and accurate assessed values. As a result, there may be fewer disputes between county assessors and taxpayers over values and a resultant decrease in the number of assessment appeals filed.

The Board recently received funding on a two-year limited basis<sup>1</sup> to create and participate on a team that will conduct studies in the development of valuation factors for non-production computer equipment.

## V. Discussion

The Board began the valuation factor studies process by holding an interested parties meeting on August 7, 2006. At that meeting, it was agreed that the team that would conduct the studies should be comprised of Board staff, two individuals from county assessors' offices, and two individuals from industry. Subsequently, working with the California Assessors' Association and the California Taxpayers' Association, the following team was formed:

Mike Harris, Chair	State Board of Equalization
Isaac Cruz	State Board of Equalization
John Despotakis	Apple Computer Inc.
Larry Hoenig	Pillsbury Winthrop LLP
Kurt Gensicke	Los Angeles County Assessor's Office
Bruce Hastings	Sacramento County Assessor's Office

As a starting point, a definition of *non-production computers* must be determined in order to define the parameters of the studies. The Non-Production Computer Team held a meeting on September 26, 2006 in Sacramento, and subsequently had conference call meetings to draft a proposed definition of *non-production computers* for purposes of the valuation factor studies.

The proposed definition was initially brought before the Board's Property Tax Committee on March 20, 2007. Due to uncertainty by the California Assessors' Association, the committee did not take

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<sup>1</sup> Budget Change Proposal No. 6, *Valuation Factors – Biopharmaceutical and Hi-Tech Equipment* (2006-2007).

action on the issue. The proposed definition (Attachment A) now has approval of all interested parties who participated in the process.

## **VI. Alternative 1 – Staff Recommendation**

### **A. Description of Alternative 1**

Staff recommends that the attached definition of *non-production computers* be adopted (Attachment A).

The proposed definition of *non-production computers* was developed by the Non-Production Computer Team and was disseminated to interested parties via Letter To Assessors 2006/055 on December 19, 2006. Interested parties were provided an opportunity to comment and/or make suggestions for revisions to the proposed definition.

### **B. Pros of Alternative 1**

Adoption of the proposed definition of *non-production computers* will provide the Non-Production Computer Team with a definitive scope for the valuation factor studies. Additionally, when the resultant valuation factors are published by the Board, the definition will provide guidance to users by indicating the specific equipment that was part of the studies.

### **C. Cons of Alternative 1**

None

### **D. Statutory or Regulatory Change for Alternative 1**

None

### **E. Operational Impact of Alternative 1**

None

### **F. Administrative Impact of Alternative 1**

#### **1. Cost Impact**

Costs associated with the Valuation Factor Studies are provided for in Budget Change Proposal No. 6, *Valuation Factors – Biopharmaceutical and Hi-Tech Equipment* (2006-2007).

#### **2. Revenue Impact**

None

### **G. Taxpayer/Customer Impact of Alternative 1**

None

### **H. Critical Time Frames of Alternative 1**

Adoption of a definition of *non-production computers* at the March 20, 2007 Property Tax Committee meeting will allow the Non-Production Computers Team to proceed with the value factors studies.

**VII. Other Alternatives**  
Not applicable

Prepared by: Property and Special Taxes Department, County-Assessed Properties Division

Current as of: March 30, 2007

## DEFINITION OF NON-PRODUCTION COMPUTERS

Non-production computers consist of: (1) general purpose computers; (2) general purpose computer peripherals; and (3) local area network (LAN) devices. General purpose computers contain a central processing unit and memory (be it volatile, fixed, on chips, on a disk, or a diskette), and run a stored program (software). General purpose computers can be programmed to do different kinds of tasks, rather than special purpose computers that are limited by design to a specific task. General purpose computers consist of mainframes, servers and microcomputers (desktops and laptops). General purpose computer peripherals consist of the auxiliary equipment which is designed to be placed under the control of a general purpose computer. General purpose computer peripherals include equipment such as monitors, keyboards, mice, docking stations, printers, scanners, disk drives, tape drives, modems, wireless cards and web cameras. LAN devices are used to connect two or more general purpose computers, to store data and to facilitate data traffic in a network. LANs are usually contained in a single building (but equipment which is part of a LAN is not excluded merely because it is also part of a wide area network). LAN devices include equipment such as routers, computer network switches, hubs, virus protection equipment, and storage devices. Non-production computers do not include telecommunication equipment or lines (wire, fiber or other) used to connect LANs, computers embedded in machinery, and equipment or computers specifically designed for use in any other application directly related to manufacturing.