



BOARD OF EQUALIZATION

PROPERTY TAX COMMITTEE MEETING MINUTES

HONORABLE DEAN F. ANDAL, COMMITTEE CHAIR

450 N STREET, SACRAMENTO

DECEMBER 7, 1998

ACTION ITEMS**Agenda Item 1: Jurisdiction for Assessment of Electric Generation Facilities****Issue**

What is the Board's assessment jurisdiction under Article XIII, section 19 with respect to companies owning electric generation facilities and selling electricity generated by those facilities after the effective date of AB 1890 (Ch. 854, 1996), which restructured the electric utility industry?

Committee Discussion

Board staff reported it has revised its recommendations on the above issue. The staff proposed a two-phase approach. The staff recommended that: (1) the Board assert its assessment jurisdiction on January 1, 1999 lien date as to 5 additional companies which purchased generation facilities from public utilities in 1998; and (2) in phase two, the Board address the jurisdiction issue as to the remaining companies selling electricity through the rule-making process in the first part of 1999. Committee Members, the staff, county assessors, representatives of local governments, and representatives of affected industry groups presented their views on the above issue. Among the issues discussed were: (1) the interpretation of Article XIII, section 19 of the California Constitution; (2) traditional practices used to determine jurisdiction; (3) potential revenue shifts among local governments due to different allocation methods resulting from the change in assessment jurisdiction; (4) jurisdiction status of co-generation plants; (5) effect of the change in jurisdiction on valuation of these facilities (annual reappraisal at FMV for state-assessed properties vs. Proposition 13 value for locally assessed property); (6) difference in appeal procedures; and (7) criteria used for determining jurisdiction.

The Committee Chairman offered, for committee discussion, a memorandum (dated December 3, 1998) and a proposed regulation (Rule 905) which seek to define a company transmitting or selling electricity under the California Constitution, and the criteria for the Board to have jurisdiction over such a company.

Committee Action/Recommendation

The Committee voted to recommend that Board assess for lien date January 1, 1999, the following companies which have not previously been assessed by the Board. These companies have purchased electric generation facilities from major California utilities in 1998.

- Duke Energy
- AES Corp.
- Houston Industries
- NRG/Destec
- Thermo Ecotek

The Committee directed that staff draft a proposed regulation on jurisdiction for assessment of companies transmitting or selling electricity and bring the proposed regulation to the Board for approval for publication as provided in the Administrative Procedure Act at its February 2, 1999 meeting in Culver City.

Agenda Item 2: Approval of Wording reflecting 11/19/98 Modifications to Draft Assessors' Handbook 502, *Advanced Appraisal*

Issue A

Should the Modified Industry Draft (as directed by the Board in its 11/19/98 meeting) regarding intangible assets and rights be approved for AH 502?

Committee Discussion

Staff reported that the industry submitted comments on the staff's rewrite of the industry draft (Modified Industry Draft). Committee Members presented their views on the modified draft. Committee Members discussed the concerns regarding the revenue impact estimates (a possible \$4.36 million related to Scenario 1 and possibly \$2.2 billion related to Scenario 3). Representatives from the California Assessors' Association (CAA) and various counties also presented their views and expressed their concerns about the proposed draft before the Committee.

Committee Action/Recommendation

The Committee voted to recommend the following to the Board in regard to the Modified Industry Draft (Attachment A):

- Accept changes proposed by industry and agreed to by staff (Attachment B).
- Accept changes proposed by industry where staff disagrees: Items 1, 3, 4, 5, and 6 (Attachment C).
- Reject changes proposed by industry but disagreed with by staff: Items 2 and 7 (Attachment C). (These two items have revenue impacts under Scenario 3.)
- Reject all other changes proposed by industry.
- Delete from Modified Industry Draft the language (Attachment D) which redefines RCLD, under Scenario 3, subject to staff making appropriate grammatical changes. (The deletion of language would remove concerns regarding the \$2.2 billion revenue impact.)
- Add specific language that Replacement Cost Less Depreciation is not a cap on value. (Place for the specific language to be determined by staff.)

The Committee directed that staff prepare a statement as to the revenue effect of the language adopted by the Committee to be included in AH 502 concerning the treatment of intangible assets and rights. The statement is included in the Minutes as Attachment AA.

The Committee also directed that the staff complete the revision to the draft reflecting the above changes by 5:00 p.m., December 8, 1998.

Issue B

Should the Committee reaffirm the tentative decision made on November 17, 1998 regarding leasing commissions as a component of cost in the cost approach?

Committee Discussion

Board staff submitted to the Committee additional language for reconsideration on this issue. Committee Members presented their views on the above issue.

Committee Action/Recommendation

The Committee voted to recommend that the Board adopt the industry position on this issue and delete the staff's wording that initial leasing costs to achieve stabilized occupancy are valid components of cost in the cost approach.

Issue C

Approval of additional language pertaining to new construction, portion thereof, and replacement (Consent Item 2C-1); and approval of November 1998 Draft of AH 502, *Advanced Appraisal*, with changes directed by the Committee in today's meeting (2C-2).

Committee Discussion

Staff presented two consent items as stated above for Committee action.

Committee Action/Recommendation

The Committee voted to recommend that the Board

- Accept the staff's additional language pertaining to new construction, portion thereof, and replacement (Attachment E).
- Approve wording of the November 1998 Draft Assessors' Handbook Section 502, *Advanced Appraisal*, with changes directed by the Committee at today's (December 7, 1998) meeting.

Agenda Item 3: Approval of Wording for Draft Assessors' Handbook 504, *Appraisal and Assessment of Personal Property and Fixtures*

Issue 1

Should a discussion describing the basic concepts of statistical sampling be included in the appendix of Assessors' Handbook Section 504, *Appraisal and Assessment of Personal Property and Fixtures*, and if so, which text should be approved?

Committee Discussion

Staff presented two versions of the Sampling Appendix, the staff version and the CAA version. Board staff, representatives of CAA, and representatives from industry presented their views on the above issue. Staff recommended that the Board retain the current discussion (the staff version) on sampling in the appendix of AH 504. The staff position has been supported by industry. The CAA recommended the appendix be excluded from AH 504. If a sampling appendix is retained, the CAA recommended that the Board adopt the modified discussion (CAA version).

Committee Action/Recommendation

The Committee voted to recommend that the Board adopt the staff position to retain the staff's discussion on sampling in the appendix of AH 504 (Attachment F) with the following exceptions:

- Delete the 4 sentences as shown on Page 8 lines 24 through 31 beginning with "For example, if" and ending with ".... remain at 400." as shown on the CAA draft (Attachment G).
- Delete the parenthesis and the wording inside the parenthesis as shown on Page 8 lines 32 and 33 of the CAA draft (Attachment G).
- Add "particular" before "sample size" and delete "of 50" after "size" as shown on Page 9 line 3 of the CAA draft (Attachment G).
- Delete "(if the explanation for the large interval is acceptable)" as shown on Page 12 line 7 of the CAA draft (Attachment G).

Issue 2

Should a discussion of application of the market method be covered in the appendix of Assessors' Handbook Section 504, *Appraisal and Assessment of Personal Property and Fixtures*, and if so, which text should be approved?

Committee Discussion

Staff presented two versions of the appendix on application of the market method, the staff version and the CAA version. Board staff, representatives of CAA, and representatives from industry presented their views on the above issue. Staff recommended that the Board retain the staff discussion on sampling in the appendix of AH 504. The staff position has been supported by industry. The CAA recommended the appendix be excluded from AH 504. If the application of the market method appendix is retained, the CAA withdrew its proposal for a modified discussion (CAA version).

Committee Action/Recommendation

The Committee voted to recommend that the Board retain the staff's discussion of the application of the market method in the appendix of AH 504 (Attachment H).

Issue 3

Should a discussion describing basic living studies methodology be included in the appendix of Assessors' Handbook Section 504, *Appraisal and Assessment of Personal Property and Fixtures*?

Committee Discussion

Board staff, representatives of CAA, and representatives from industry presented their views on the above issue. Staff recommended that the Board retain the staff discussion describing basic living studies methodology in the appendix of AH 504. The staff position has been supported by industry. The CAA recommended that such discussion be excluded from AH 504.

Committee Action/Recommendation

The Committee voted to recommend that the Board retain the staff's discussion describing basic living studies methodology in the appendix of AH 504 (Attachment I) with correction of the typographical error "O-1" on page 4 line 27 of the staff draft.

Issue 4

Should the trade level discussion in Assessors' Handbook Section 504, *Appraisal and Assessment of Personal Property and Fixtures*, retain staff's language or include industry's proposed deletions and modifications?

Committee Discussion

The staff reported that there were three unresolved items in the discussion of trade level. They are: (1) transfer price, (2) warranty and support costs, and (3) gross profit margin markup method. Board staff, representatives of CAA, and representatives from industry presented their views on these three items. Staff recommended that the Board retain the staff's language on the discussion of trade level in AH 504. The CAA has supported the staff position.

Committee Action/Recommendation

The Committee voted to recommend that the Board accept the staff language on (1) transfer price, (2) warranty and support costs, and (3) gross profit margin markup method, and retain the staff's language on the discussion of trade level in AH 504 (Attachment J).

Issue 5

Are validation costs incurred to comply with Food and Drug Administration (FDA) validation requirements for manufacturing equipment used to produce an FDA-licensed product considered valid components of the full economic cost of the equipment?

Committee Discussion

The staff presented two versions of the proposed language on the discussion of validation costs, the staff version and the industry version. Board staff, representatives of CAA, and representatives from industry presented their views on the above issue. Staff recommended that the Board retain the staff's language on the discussion of validation cost, because the cost associated with meeting FDA validation requirements for manufacturing equipment are costs of bringing the equipment to a finished state and are valid components of the full economic cost of the equipment. The CAA has supported the staff position. The industry's view has been that FDA validation costs are not valid components of full economic cost in determining the market value of manufacturing equipment used to produce FDA licensed products.

Committee Action/Recommendation

The Committee voted to recommend that the Board adopt the industry's language for the discussion of validation costs in AH 504 (Attachment K).

Issue 6

Approval of remaining items for AH 504 shown as Consent Items on the Committee Agenda

Committee Discussion

The staff reported there are five consent items for approval by the Committee as follows:

1. Approval of "AH 504" as the number of the manual regarding personal property and fixtures as agreed by the staff and interested parties.
2. Approval of "Assessment of Personal Property and Fixtures" as the name of the manual regarding personal property and fixtures.
3. Approval of staff's proposed wording regarding storage media for computer programs and basic operational programs.
4. Approval of staff's amendment to the trade level section presented in issue paper # 98-036.

5. Approval of wording on the December draft of Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, with changes as directed by the Committee in today's (December 7, 1998) meeting.

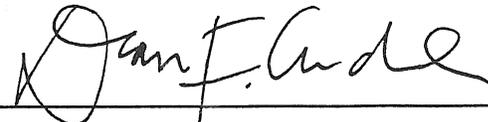
Item 4 was removed from the Consent Agenda for discussion. Board staff, representatives of CAA, and representatives from industry presented their views on this issue.

Committee Action/Recommendation

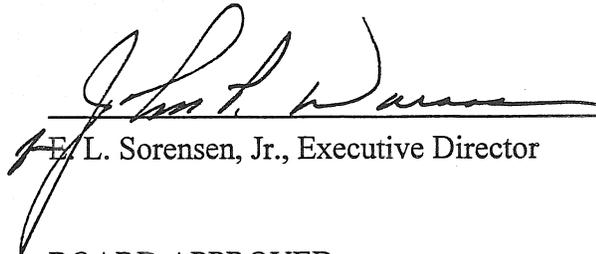
The Committee voted to recommend that the Board

- Approve the staff's amendment (Attachment L) to the trade level section presented in Issue Paper #98-036.
- Approve Consent Items 1, 2, 3, and 5 as stated above.

Approved: _____



Dean F. Andale, Committee Chair



E. L. Sorensen, Jr., Executive Director

BOARD APPROVED

at the 12-10-98 Board Meeting



Janice Masterton, Chief

Board Proceedings Division