GUIDELINES FOR THE ASSESSMENT OF BILLBOARDS
PROPOSED ALTERNATIVE LANGUAGE TO STAFF'S DRAFT

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
1.	1	8 11	San Bernardino County	Several distinct interests typically exist in the underlying land; an operator must possess one or more special permits or licenses; sales of individual billboards rarely occur; ~~since billboards are almost always owner-operated, rental data is usually unavailable~~; operating income, though available, is typically generated not by a single billboard, but by a grouping of them; finally, some of that ~~operating~~ rental income may be attributable to intangible assets or rights that relate not to taxable property, but rather to the billboard operator's business.	Not accepted. It is technically correct to characterize the income generated by a billboard property as operating, not rental, income.
2.	1	9	Yolo County	since billboards are almost always owner-operated~~, rental data is usually unavailable~~	Not accepted; see item 1.
3.	1	29 33	San Bernardino County Yolo County	• Display space on a billboard is typically ~~"sold"~~ rented to an advertiser who wishes its message to be seen by a certain demographic group; the display of an on-premise sign is dedicated to the business where the sign is located. • Typically, billboards are constructed and owned by a billboard company (i.e., a company in the business of ~~selling~~ renting advertising space on billboards) that holds a leasehold interest in the billboard site; on-premise signs are constructed and owned by the same entity that owns the site.	Not accepted; see item 1.
4.	2	26	Shasta County	~~Almost all~~ Typically, billboards are owned by billboard companies, which offer display space on billboards to advertisers for a fee.	Accepted.

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5.	2	30 31	San Bernadine County Yolo County	Advertising space is often ~~sold~~ rented for a group of billboards rather than for a single billboard. These group ~~sales~~ rentals are called “showings.” For example, an advertiser might purchase a showing that involves advertising space on a specified group of 30 billboard faces within a given metropolitan area for 3 months.	Not accepted; see item 1.
6.	3	27	San Bernardino County	As noted above, billboard advertising is typically ~~purchased~~ rented for a grouping of billboards rather than for a single billboard.	Not accepted; see item 1.
7.	4	9	San Bernardino County	Delete paragraph: ~~Thus, the tightening regulatory environment for billboards in recent years means that a significant portion of the value of a typical billboard property is attributable to the legal entitlement to develop and operate a billboard property, that is, to the billboard use permits.~~	Not accepted. Reason for proposed deletion?
8.	4	13	San Bernardino County	The cost of t ~~T~~hese billboard use permits issued by government ~~are properly~~ can be characterized as intangible assets or rights.	Not accepted. Not accurate.
9.	4	16	Yolo County	Inasmuch as the sole purpose of obtaining a billboard use permit is to gain authorization ~~for a specific land use at~~ a to build a specific size sign at a maximum height at a specific geographic location, however, similar to a building permit, a billboard property must be assessed and valued assuming the presence of the permit.	Not accepted. Staff’s language adequately makes the intended point.
10.	4	19	San Bernardino County	Add following sentence and footnote: It should be recognized that intangibles that affect the real property's value by enabling its profitable use, may contribute to an assessment of fair market value. [FN] [FN] See *American Sheds, Inc. v. County of Los Angeles* (1998) 66 Cal.App.4th 384; *Roehm v. County of Orange* (1948) 32 Cal.2d 280.)	Not accepted. “May contribute to an assessment of fair market value” is ambiguous. See also R&T Code section 110, subdivisions (d) through(f).

NO.	PAGE/LINE REFERENCE		SOURCE	PROPOSED LANGUAGE	SBE STAFF POSITION
11.	4	23	San Bernardino County	The purchase price of a billboard property (or group of billboard properties) and the advertising rental income received by a billboard company may reflect a component of enterprise value.	Not accepted; see item 1.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
12.	4	29	Yolo County	Add section as follows: INCOME APPROACH: BEST INDICATION FOR A SINGLE SIGN Some appraisers claim that the income approach is unwieldy for outdoor advertising billboards because income and expense data are difficult, if not impossible, to obtain. It appears that outdoor advertising companies may not be willing to release this information to the general public. Of course, difficulty in securing data is not a valid reason for excluding any approach from the computation of market value. It is also incorrect to assert that the income approach reflects the "business" value of a billboard. The expense data, which include all operating and management costs, effectively eliminate the "business" component from the income figures. Thus, the computed net operating income (NOI) applies entirely to the real estate, in the same manner that the NOI of a hotel, office building, or an apartment complex exclusively reflects the value attributable to the realty. An outdoor advertising structure is not a restaurant or a fast food outlet, where a separate and distinct business activity is conducted such as selling food and beverages. All activities of a sign owner relate directly to its being rented to a tenant-advertiser, a purely real estate related function. The income approach is the procedure in appraisal analysis that converts anticipated benefits (dollar income or amenities) to be derived from the ownership of property into a value estimate. In the income approach, the gross annual income attributable to the subject is estimated. From this figure, all applicable expenses, including a reasonable allocation for vacancy and credit loss, are deducted. The anticipated future net operating income stream and the property reversion are then discounted to present value at a market rate. The approach is dependent upon an accurate statement of economic rents; the deduction of all applicable expenses; and the conversion of net operating income into value through appropriate capitalization. The driving force for investing in income producing property, such as outdoor advertising, is to attain an acceptable return on investment. Therefore, the appraiser must analyze the occupancy rent and operating expenses of comparable properties to estimate the subject's net operating income at stabilized occupancy. The net operating income is then capitalized at a market rate to compute the subjects market value from this approach. For outdoor advertising, operating expenses exclude debt service, depreciation, capital expenditures, income taxes, etc., but include land lease expense, equipment maintenance, property taxes, utilities, etc., and an allocation of management and general overhead expenses. Agency commissions are deducted from annual rent, after vacancy and rent loss, to compute effective gross income.	Not accepted. Material in first paragraph is either covered elsewhere in staff's draft or is unnecessary. Material in second paragraph is not accurate; some enterprise value may exist. Material in paragraphs 3 through 6 is either covered elsewhere in the draft or is unnecessary.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
13.	5	25	San Bernardino County	To derive the income multiplier, the sale price of a comparable billboard property is converted into a multiple of its annual effective gross advertising rental income (gross advertising income less allowances for vacancy [periods when the billboard space is not rented] and advertising agency commissions).	Not accepted; see item 1.
14.	5	31	Shasta County	~~Typically, multipliers are derived and applied using the expected income for the year following the sale.~~ Typically, multipliers are derived by using the anticipated income and applied to the market income for the year following the sale (see AH 502 page 56).	Accepted; but will exclude parenthetical reference, which already appears elsewhere.
15.	6	5	San Bernardino County	The appraiser can derive an effective gross income multiplier from such a sale by dividing the aggregate effective gross advertising rental income for all of the billboard properties in the sale	Not accepted; see item 1.
16.	8	12	Shasta County	In direct capitalization, a capitalization rate ("overall rate") is derived from one or more comparable sale properties by dividing each comparable property's anticipated net operating income by its sale price. The overall rate thus derived is divided into the ~~expected~~ net market operating income of the subject property to generate a value indicator.	Not accepted. The term "net market operating income" is not conventional usage, even in appraisal.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
17.	8	14	San Bernardino County	Add paragraph: If the actual income and/or expense data cannot be obtained, economic rents and expenses may be derived from current market. The use of data obtained from the market during the valuation of income producing properties is consistent with accepted standard appraisal practices.	Accepted in concept. Would move to page 8, line 8 (places add paragraph in previous section of manual). Would rephrase as follows: As when appraising other types of income-producing property, the income and expenses of the subject property may be estimated using actual income and expense data from the subject property or data from comparable properties, as appropriate.
18.	8	26	San Bernardino County	Estimate the cost new of constructing and siting the billboard improvement (This cost may vary greatly depending on the jurisdiction).	Not accepted. True, but not necessary.
19.	8	27	Shasta County	1. Estimate the cost new of constructing and ~~siting~~ placing the billboard improvement.	Not accepted. “Siting” is acceptable usage.
20.	9	6	San Bernardino County	The best source of current costs may be obtained from the billboard company's books and records or billboard contractors~~— that is, from~~ (businesses that construct billboard improvements).	Accepted in concept. Would rephrase a bit, as follows:
21.	9	13	Shasta County	Physical deterioration is due to a property’s physical deterioration. It is “curable” if the cost to cure (i.e., repair) the defect is less than or equal to the value added by curing it; it is “incurable” if the cost to cure is ~~less~~ more than the value added.	Accepted.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
22.	9	32	Yolo County	Add following sentence at end of paragraph: Therefore economic obsolescence can only be measured with the income or market approaches.	Not accepted. The staff draft deliberately avoided a discussion of how the various types of depreciation could be estimated. (See AH 501, 502.)
23.	10	24	San Bernardino County	The indicated taxable value of the billboard property ~~must~~ should be allocated between two separate appraisal units (land and billboard property ~~improvements~~). Here is the recommended method of allocation:	Not accepted. This is not accurate—at least in the context of staff's meaning for the terms that are used.
24.	10	27	San Bernardino County	1. Estimate the value of the billboard property ~~improvement~~ (improvements, lessee's leasehold interest in the site, and use permit) based on ~~its cost new less depreciation~~. standard appraisal practices. [FN] Allocate this value to ~~improvements~~. the billboard property. The value arrived at will be the value at the time of the purchase and will become the base year value. Subsequent assessments on each lien date will be assessed based on Prop 13 (subject to indexing limitation). [FN] See the section of this report discussing background - appraisal unit.	Not accurate. The proposed change says to allocate the value of the billboard property to the billboard property, which is a meaningless statement. Staff's position is that the value of the billboard property must be allocated between the billboard improvement and land.
25.	10	27	Yolo County	1. Estimate the value of the billboard improvement based on its cost new including cost of obtaining permits less depreciation or on the income approach deducting land expense from income stream~~.~~ Allocate this value to improvements.	Not accepted. Staff's position is that the only feasible way to estimate the value of the billboard improvement is a cost approach.
26.	10	30	San Bernardino County	2. Any additional value for the benefits received by the land owner should be considered in the land value ~~Subtract the value allocated to the billboard improvement from the estimated value of the billboard property. Allocate this remaining value to land.~~ if these benefits have not been considered.	Not accepted. Meaning unclear. See also comment at item 25.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
27.	10	33	San Bernardino County	The rationale for this allocation method is essentially as follows: ~~If a billboard improvement were destroyed, the owner of the billboard property would have the right to reconstruct the billboard improvement on the same site, but not at any other site. Thus, the value of the billboard property in excess of the cost new less depreciation of the billboard improvement relates to the leasehold interest in the billboard site.~~ Per standard appraisal practice the allocation should be based on the appraisal unit as defined under the background section of these guidelines. The indicated "fair market value" of the appraisal unit (billboard property) should be allocated to the owner of the appraisal unit. Considering the owner of the billboard and not the landowner maintains the majority rights and benefits that pertain to the billboard, these rights and benefits include: 1. The right to control the income from the rental of the advertising space. 2. The billboard owner normally obtains the necessary permits and licenses. 3. Permits and licenses are valid as long as the billboard remains on the property. If the billboard owner removes the billboard, the permits and licenses typically terminate. Regulations vary from jurisdiction to jurisdiction. 4. The right to receive the sale proceeds from the sale of the billboard. The landowner typically would not receive any sale proceeds or be involved with the sale other than as the lessor.) 5. The right and responsibility of maintaining, restoring, and upgrading the billboard retained by the billboard owner. 6. At the termination of the lease the billboard company maintains the ownership of the billboard and the billboard is typically removed. 7. The billboard owner has the right to remove the billboard and terminate the lease. The above benefits and rights are typically only enjoyed by the owner of the billboard and none of these rights are enjoyed or transferred to the landowner. At the termination of the lease or the removal of the billboard the above benefits normally do not transfer to the landowner or become a part of the land. Therefore, the value of the billboard should be assessed to the owner of the billboard.	Not accepted. The essence to the proposed language is that all of the value of the billboard property should be “allocated” to the assessment made to the owner of the billboard property, typically, a billboard company. This directly contradicts staff’s view that the value of the billboard property must be allocated between the billboard improvement and land, with the amount allocated to land becoming part of the land assessment to the fee owner of the land. In addition, the allocation to land would only be assessable if there has been a change in ownership of the land.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
28.	10	35	Yolo County	Thus, the value of the billboard property in excess of the ~~cost new less depreciation~~ market value of the billboard improvement relates to the leasehold interest in the billboard site. (Additional comment: "If you substituted "cost of a house less depreciation" for billboard would you still consider it good appraisal practice?")	Not accepted. Staff's view is that the only feasible way to estimate the value of the billboard improvement is the cost approach.
29.	11	1	San Bernardino County	This method of allocation is also consistent with classifying a billboard ~~improvement's classification~~ property as a fixture and its resulting status as a separate appraisal unit.[Existing FN #9 stays here.] This is consistent with the concept of appraisal units ("that appraisal unit that persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately).[FN] Whether a billboard property may be reassessed upon a sale or transfer of the billboard property is discussed in the following section. ~~As a separate appraisal unit, the~~ The concept of the appraisal unit would indicate a billboard ~~improvement~~ property should be valued separately from the land. ~~However, whether the value allocated to the leasehold interest in the billboard site may be assessed depends upon whether a sale or transfer of the billboard property has occurred, constituting a change in ownership of the billboard site. This is discussed in the following section.~~ [FN] See AH 502 Chapter Appraisal Unit and Bulk Sales.	Not accepted. The proposed language again evidences a fundamental disagreement with, or misunderstanding of, staff's proposed method of allocation.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
30.	11	11	San Bernardino County	The assessment of a billboard property is subject to article XIII A of the California Constitution, which states that property may be reassessed only upon a change in ownership or when newly constructed. Thus, when a billboard property is sold, the ~~portion of the value of the~~ billboard property ~~allocated to the leasehold interest in the billboard site~~ is subject to reassessment only if there has been a change in ownership of the billboard property ~~site~~. [Existing FN #10 here.]	Not accepted. Again, the proposed language is contrary to staff's view in regard to what should be allocated and how it should be allocated.
31.	11	17	San Bernardino County	The land on which a billboard is located may be considered a separate appraisal unit. Under the provisions of subdivision (c)(1) of Revenue and Taxation Code section 61 and Property Tax Rule 462.100, subdivisions (a)(1) and (a)(2), such a change in ownership of the land would occur~~s~~ if there has been any of the following:	Not accepted. Not accurate.
32.	11	29	San Bernardino County	Delete paragraph: ~~While there are two interests in the billboard site, there is only one land assessment. The value of both interests in the billboard site should be assessed to the fee interest in land. Further, only if the billboard company's leasehold interest is subject to reassessment as discussed above should a separate base year value be established and tracked for that interest; in any case, a separate land *assessment* should not be created for the billboard company's leasehold interest in the billboard site.~~	Not accepted (also, disagreement over allocation).
33.	12	5	Yolo County	Further, only if the billboard company's leasehold interest is subject to reassessment as discussed above should a separate base year value be established and tracked for that interest; in any case, a separate land *assessment* should ~~not~~ be created for the billboard company's leasehold interest if a lease greater than 35 years exists for ~~in~~ the billboard site.	Not accepted. Staff's view is that a separate land assessment for the leasehold interest in the billboard site should *never* be created.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
34.	12	10	San Bernardino County	Market and cost data relating to the value of billboard properties may be difficult to obtain. Billboard companies themselves are probably the best source of such information. <u>To assure proper assessments these companies must provide the data when requested.</u> Accordingly, assessors may rely upon the same authorities for gathering relevant assessment data about billboard properties as is relied upon on for other types of property.	Not accepted. The added language rings true, but it does not need to be included. It goes without saying.
35.	12	11	Yolo County	Market, <u>income and expense,</u> and cost data relating to the value of billboard properties may be difficult to obtain.	Accepted.
36.	12	12	Shasta County	Accordingly, assessors may rely upon the same authorities for gathering relevant assessment data about billboard properties as is relied upon ~~on~~ for other types of property.	Accepted.
37.	12	27	San Bernardino County	In compliance with section 441, the information should include, for example, detailed income data about various "showings;" construction costs; the specific terms of ground leases <u>with name and mailing address of owner</u>; and the location of each billboard owned.	Accepted.
38.	n/a	n/a	Madera County Assessor	General comment: "… One subject that might be added for discussion is the situation where the billboard is located on government ground, giving rise to a possessory interest…. In the case of a possessory interest, it would seem that the PI would be assessable, but could not exceed the current market value of the land. I suppose the same would be true for a billboard located on Section 11 property."	Staff considered including a discussion of billboards located on publicly owned land, but decided against it. Based on information we received from CalTrans and others, there are very, very few billboards located on public lands.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
				************ As alternative language, the California State Outdoor Advertising Association (CSOAA) has submitted its own version of guidelines for billboards (Attachment A). Industry's version would replace staff's version in its entirety. Staff's comments to industry's version—with proposed deletions and additions shown as strikeout and underline, respectively—are presented below. Thus, the page and line references below refer to industry's version (Attachment A). Attachment B shows the entire industry document with staff's proposed changes in strikeout and underline format. ************	
39.	1	20-22	CSOAA (as edited by staff)	~~Because billboards are properly characterized as fixtures, they are subject to depreciation in accordance with depreciation factors for purposes of property tax appraisal and assessment.~~	There is no requirement that an item classified as a fixture be depreciated; instead, the law treats fixtures as separate appraisal units for purposes of measuring declines in value, if present.
40.	1	26-30	CSOAA (as edited by staff)	<u>The appraisal unit refers to the nature and extent of the property being valued. For property tax purposes, unless the law specifically provides otherwise, the appraisal unit is the unit of property commonly bought and sold.</u> ~~A billboard property consists of: (1) a sign (with one or two faces), the wood or steel structure supporting the sign (one or multiple poles), and the foundation in which the structure is anchored; (2) the billboard use permit, including related permits which allow the billboard owner to construct and operate the billboard; and (3) the land on which the billboard is situated.~~	Staff's added language is needed to establish the meaning of the concept of "appraisal unit." The deleted language is redundant. The nature of a "billboard property" is adequately described (with staff's changes) at lines 32-40.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
41.	1	32-40	CSOAA (as edited by staff)	In California, most billboards are owned and operated by billboard operating companies;~~.~~ ~~The land on which the billboards are situated is separately owned, and~~ billboard owners typically lease the land on which their billboards are located. Sales of billboards normally include <u>(1)</u> the *billboard* <u>*improvement*</u> ~~themselves~~ (signs, structures, and foundations), ~~related~~ <u>(2) the billboard</u> use permits, <u>which allow the billboard owner to construct and operate the billboard</u>; and <u>(3) the</u> leasehold interests in the underlying land parcels. ~~For each billboard,~~ <u>T</u>~~t~~hese three elements <u>make up a typical "billboard property," and can be said to</u> constitute the billboard "appraisal unit" because they are commonly bought and sold as a single unit and are normally valued separately. (*Rev. & Tax. Code*, § 51(e); *Assessors' Handbook* AH-502, "Advanced Appraisal" (December 1998), pp. 2-5.) The <u>lessor's interest in the</u> land on which the billboard is located is a separate "appraisal unit."	Staff's language accurately describes the components of the appraisal unit and designates that unit as the "billboard property."

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
42.	1 2	42-46 1-28	CSOAA (as edited by staff)	Siting and construction of billboards is regulated by the Outdoor Advertising Act (*Bus. & Prof. Code*, § 5200, et seq.) and/or by county or municipal ordinances. The Outdoor Advertising Act or these local laws (or both in some instances) control the issuance of billboard use permits. State and local governments have used these laws to limit the number of billboards in many areas. By regulating the number of billboard use permits in existence, government has increased the value of the billboard appraisal unit in many instances. The value resulting from the scarcity of billboard use permits should be attributed to those permits and not to the billboard ~~fixed assets~~improvement. Location must also be considered in assessing billboards. The impact of location on the income which a particular billboard generates, or the price at which that billboard sells, can be considerable. This impact results from the "traffic count" or "exposure" which a particular location provides. However, a higher traffic count has little or nothing to do with a particular billboard (sign, structure, and foundation), but derives from the land on which the billboard is situated. In assessing the billboard appraisal unit, value attributable to location should be assigned to the land and not to the billboard ~~fixed assets~~improvement. ~~The billboard (sign, structure, and foundation) and land are usually owned by two separate parties, which results in two separate assessments for a billboard property. When valuing and assessing billboard properties, the billboard fixed assets and the land on which the billboard is situated are separate appraisal units, and each must be separately considered. The third element of billboard property, the~~ The billboard use permit~~s~~ is an intangible asset under section 110(e) which is necessary for the beneficial and productive use of the billboard property ~~(billboard itself and land)~~. As an intangible asset which is not itself assessable, income attributable to the use permit must be removed from the income to be capitalized (*Assessors' Handbook* AH-502, p~~p~~. ~~150-165~~163), and allocation of the use permit value to the billboard ~~fixed assets~~ improvement or to land is not appropriate ~~(see discussion below)~~. However, since a billboard use permit is necessary to put the land to beneficial and productive use as a billboard site, the land must be assessed and valued by assuming the presence of the use permit. (*Assessors' Handbook* AH 502, pp. 154-155). Because billboards are fixtures, they must be appraised in accordance with Property Tax Rule 461(e), which provides that, for purposes of decline-in-value determinations, fixtures constitute a separate appraisal unit.	"Billboard improvement" is more descriptive than "billboard" or "billboard fixed assets." The deleted text inaccurately describes the appraisal unit, which is correctly specified by staff's revision in item 41. Staff's revisions in regard to billboard use permits conforms to the language in AH 502, page 154-155.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
43.	2 3	32-46 1-4	CSOAA (as edited by staff)	The value of the billboard property should be allocated between land (i.e., the leasehold interest in the billboard site) and improvements (i.e., the billboard sign, structure, and foundation) in the following manner. 1. First, the appraiser should estimate the value of the billboard property net of the value of intangible assets and rights. This establishes the taxable value that is to be allocated. 2. Next, the appraiser should estimate the value of the billboard improvement (sign, structure and foundation) based on its cost new less depreciation and allocate this value to the billboard. 3. Finally, the appraiser should subtract the value allocated to the billboard ~~fixed assets~~improvement from the value of the billboard property, allocating the remainder to the land. In other words, all value of the billboard property in excess of the billboard's depreciated cost should be allocated to the land as a residual. This method of allocation is consistent with the billboard's classification as a fixture and its status as a separate appraisal unit. (Property Tax Rule 461(e).) ~~As a separate appraisal unit, the billboard should be valued separately.~~	Staff's proposed changes make the language regarding the components of the appraisal unit consistent with staff's definition of the appraisal unit. Stet
44.	3	13-21	CSOAA (as edited by staff)	All three approaches to value are available to determine the value of billboard property. ~~According to Property Tax Rule 6, the cost approach is the most reliable approach for valuing billboards because of the limited availability of reliable data for individual billboard (sign, structure, and foundation) sales and the difficulty of deriving a reliable income stream attributable solely to an individual billboard's fixed assets. In addition, the cost approach best provides the assessor with a value for the billboard itself that does not include value attributable to the use permit, location (land), or other billboard business intangibles.~~ Application of the three approaches ~~to value to billboards~~ is discussed below.	The objective is not to value the billboard improvement ("billboard fixed assets"); rather, it is to value the billboard property (and then adjust the value of the billboard property for any nontaxable elements. Given this objective, there is no statutory or regulatory authority for preferring the cost approach in this circumstance.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
45.	3	23-33	CSOAA (as edited by staff)	Cost Approach. Costs may be derived from actual building costs, where available, or from cost manuals. Typical soft costs relating to building permits ~~(usually no more than 10% of cost)~~ and entrepreneurial profit must also be considered. Note that entrepreneurial profit must be shown to exist in the market. (*Rev. & Tax. Code*, § 401.6.) If the replacement cost new less depreciation (RCNLD) method is used, depreciation ~~and obsolescence~~ must be estimated and deducted from replacement cost new. ~~We have attached a table setting forth composite valuation factors which can be used for typical sizes and types of billboards (sign, structure, and foundation).~~ If the underlying land is subject to reassessment, its value may be determined through an analysis of comparable sales ~~or ground leases~~. The land value should include the value attributable to location, as explained above.	There is no authority for the implied 10% limit for soft costs. Obsolescence is a type of depreciation, and, therefore, the proposed language is not accurate. In other words, by definition, depreciation encompassess obsolescence. Staff has the following questions in regard to the proposed depreciation table for billboard improvements: 1) What supports it? How was it derived? 2) Would cost new be estimated each year by using outside data or by factoring historical cost, as is often the case? 3) What is the justification for establishing a "minimum percent good" @ 30%?

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
46.	3 4	35-46 2-11	CSOAA (as edited by staff)	Comparative Sales Approach. ~~If this approach is used, each sale must be carefully analyzed so that non-billboard assets are excluded and only the fixed assets comprising the billboard (sign, structure, and foundation) should be considered. If a the sale includes multiple billboards, the portion of the sale price which the sale participants attribute to each billboard must be determined. Care should also be taken to remove the value of billboard use permits which have been acquired, and location value should be assigned to land, as discussed above. Once suitable comparables have been identified, appropriate adjustments under Property Tax Rule 4 and Revenue and Taxation Code section 402.5 must be made. A further difficulty in applying this approach is that most billboard sales include an assignment of the ground lease on which the billboard structure is situated; this element must also be factored out the sale price to arrive at the price paid for the billboard fixed assets alone.~~ In direct sales comparison, a value indicator is developed by comparing a comparable property to the subject property, adjusting the sale price of the comparable property for differences between it and the subject (see Property Tax Rule 4 and Revenue and Taxation Code section 402.5; in the case of a billboard property, if the ground lease does not reflect market rent, it is also necessary to adjust the comparable sales data for this element). Billboard properties, however, typically sell in groups, and there is little data regarding sales of individual billboard properties. This makes it difficult to apply direct sales comparison to billboard properties. ~~In some instances,~~ Since sales of individual billboard properties rarely occur, it ~~may be possible to~~ will usually be more practicable to develop an effective gross income multiplier (EGIM) ~~for a sale by dividing the sale price by the annual gross advertising income which a group of billboards generates~~ from sales of groups of billboard properties. EGIMs, which are commonly used by the billboard industry to determine what price to pay for a group ~~of assets~~ billboard properties, should be. ~~Using GIMs in the assessment of billboard property, however, will produce excessive taxable values unless significant, and sometimes subjective, adjustments are made. This occurs because GIMs are~~ derived from the total advertising income generated by ~~a~~ the group ~~of assets~~, ~~often found in multiple counties, including non-billboard and~~ adjusted for any non-taxable assets. ~~In addition, the~~	(1) Propose replacement of paragraph beginning on page 4, line 35, with the following: (2) Modifications to the paragraph beginning on page 4, line 2, are to clarify that adjustments for nontaxable property should be made when the EGIM is derived from the comparable data.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
47.	4	13-30	CSOAA (as edited by staff)	Income Approach. ~~In order to apply this approach, the assessor must identify the income stream attributable to the billboard fixed assets alone.~~ Rental ~~comparables~~ data are difficult to locate because billboards themselves are rarely leased. If billboard rental comparables are available, the value attributable to the billboard use permit and location must be deducted. ~~Once~~ If ~~a gross~~ rental income is ~~determined~~ available, then appropriate deductions for advertising agency commissions, operating expenses, and vacancy~~,~~ and collection losses must be made. Operating expenses include ground rent, painting and production (poster installation), maintenance, electricity, management, insurance, and recurring permit fees~~, taxes and corporate overhead~~. After net income is determined, an appropriate capitalization rate must be developed. ~~Theoretically,~~ Since rental income is typically unavailable, it will usually be the case that operating income will be used. Under this approach, an income stream attributable to a billboard ~~'s fixed assets~~ property ~~could be~~ is imputed by taking the total advertising income, or operating income, generated by a specific billboard (or by a group of billboards) and deducting certain amounts relating to non-taxable and non-billboard property, such as the billboard use permit and business enterprise value elements~~, and location~~. (*Assessors' Handbook* AH-502, pp. 150-165.) ~~This technique is not recommended, however, unless the value associated with the income not attributable to taxable property can be quantified.~~ Under Property Tax Rule 8, rental income is preferred to operating income when estimating the income to be capitalized. Rental income is generally directly attributable to the use of taxable property. Operating income, by contrast, may be attributable, in part, to nontaxable intangible assets and rights relating to a business.	Staff deleted the first sentence of first paragraph (begins at page 4, line 13) because it is not the billboard improvement ("billboard fixed assets") that is being valued—it is the billboard property. The second paragraph (begins at page 4, line 24) was modified to make it clearer that the use operating income was being discussed. Also, the last sentence of this paragraph was deleted and replaced with proposed new language that is less categorical and more consistent with Rule 8.

No.	Page/Line Reference		Source	Proposed Language	SBE Staff Position
48.	4	34-44	CSOAA (as edited by staff)	If the cost approach is not employed to value <u>a</u> billboard property, the value of business-related intangible assets and rights will have to be identified and deducted. This is particularly true when the <u>E</u>GIM technique or the income approach are used. ~~The~~Such business-related intangibles ~~which~~ may ~~need to be considered~~ include the billboard ~~use~~ <u>operator's</u> permit ~~(including the operating permit); billboard management, marketing and siting abilities; relationships and contracts with landowners, advertisers and advertising agencies; trained and assemble workforce in place; "synergy" value associated with the ownership and operation of multiple billboards;~~ and company reputation or "goodwill." ~~Many of these business-related intangibles have been specifically identified by the courts or other authorities on the assessment of intangible assets and rights. (*Assessors' Handbook* AH 502, pp. 150-165.)~~	The list of intangible assets or rights in the proposed text have not been validated in the case of billboard properties. Moreover, this material is addressed in AH 502, Chapter 6.
49.	5	1-38	CSOAA (as edited by staff)	[Delete depreciation table.]	See staff comment at item 45.

ASSESSMENT OF BILLBOARDS

Description of Billboards

Billboards, or off-premise outdoor advertising signs, make advertising space available to advertisers for display to the public. These signs do not advertise the business or other activity occurring at the site on which the billboard is located. The larger and most common types of billboards are usually located on leased property adjacent to freeways, highways and major thoroughfares throughout California.

Billboards Are Fixtures

Billboards are properly classified as fixtures under Property Tax Rule 122.5(a)(1), which defines a fixture to include an item of tangible property which is “physically or constructively annexed to realty with the intent that it remain annexed indefinitely.” In general, billboards are affixed to the ground, are moved infrequently, and are intended to remain annexed indefinitely. These circumstances require that billboards be classified as “fixtures.” Because billboards are properly characterized as fixtures, they are subject to depreciation in accordance with depreciation factors for purposes of property tax appraisal and assessment.

Billboard Property Components and Appraisal Unit

A billboard property consists of: (1) a sign (with one or two faces), the wood or steel structure supporting the sign (one or multiple poles), and the foundation in which the structure is anchored; (2) the billboard use permit, including related permits which allow the billboard owner to construct and operate the billboard; and (3) the land on which the billboard is situated.

In California, most billboards are owned and operated by billboard operating companies. The land on which the billboards are situated is separately owned, and billboard owners typically lease the land on which their billboards are located. Sales of billboards normally include the billboards themselves (signs, structures, and foundations), related use permits, and leasehold interests in the underlying land parcels. For each billboard, these three elements constitute the billboard “appraisal unit” because they are commonly bought and sold as a single unit and are normally valued separately. (*Rev. & Tax. Code*, § 51(e); *Assessors’ Handbook* AH-502, “Advanced Appraisal” (December 1998), pp. 2-5.) The land on which the billboard is located is a separate “appraisal unit.”

Siting and construction of billboards is regulated by the Outdoor Advertising Act (*Bus. & Prof. Code*, § 5200, et seq.) and/or by county or municipal ordinances. The Outdoor Advertising Act or these local laws (or both in some instances) control the issuance of billboard use permits. State and local governments have used these laws to limit the number of billboards in many areas. By regulating the number of billboard use permits in existence, government has increased the value of the billboard appraisal unit in many instances. The value resulting from the scarcity of billboard use permits should be attributed to those permits and not to the billboard fixed assets.

Location must also be considered in assessing billboards. The impact of location on the income which a particular billboard generates, or the price at which that billboard sells, can be considerable. This impact results from the “traffic count” or “exposure” which a particular location provides. However, a higher traffic count has little or nothing to do with a particular billboard (sign, structure, and foundation), but derives from the land on which the billboard is situated. In assessing the billboard appraisal unit, value attributable to location should be assigned to the land and not to the billboard fixed assets.

The billboard (sign, structure, and foundation) and land are usually owned by two separate parties, which results in two separate assessments for a billboard property. When valuing and assessing billboard properties, the billboard fixed assets and the land on which the billboard is situated are separate appraisal units, and each must be separately considered. The third element of billboard property, the billboard use permit, is an intangible asset under section 110(e) which is necessary for the beneficial and productive use of the billboard property (billboard itself and land). As an intangible asset which is not assessable, income attributable to the use permit must be removed from the income to be capitalized (*Assessors’ Handbook* AH-502, pp. 150-165), and allocation of the use permit value to the billboard fixed assets or to land is not appropriate (see discussion below).

Because billboards are fixtures, they must be appraised in accordance with Property Tax Rule 461(e) which provides that, for purposes of decline-in-value determinations, fixtures constitute a separate appraisal unit.

<u>Allocation of Value to Billboard Property Components</u>

The value of the billboard property should be allocated between land (i.e., the billboard site) and improvements (i.e., the billboard sign, structure, and foundation) in the following manner.

1. First, the appraiser should estimate the value of the billboard property net of the value of intangible assets and rights. This establishes the taxable value that is to be allocated.

2. Next, the appraiser should estimate the value of the billboard (sign, structure and foundation) based on its cost new less depreciation and allocate this value to the billboard.

3. Finally, the appraiser should subtract the value allocated to the billboard fixed assets from the value of the billboard property, allocating the remainder to the land. In other words, all value of the billboard property in excess of the billboard’s

depreciated cost should be allocated to the land as a residual. This method of allocation is consistent with the billboard's classification as a fixture and its status as a separate appraisal unit. (Property Tax Rule 461(e).) As a separate appraisal unit, the billboard should be valued separately.

The portion of the value of the billboard property that is allocated to the land may or may not be assessable depending on the terms of the underlying ground lease. In order to reassess the value allocated to land, a change in ownership of the land under article XIII A (Proposition 13) must have occurred.

Approaches to Value

All three approaches to value are available to determine the value of billboard property. According to Property Tax Rule 6, the cost approach is the most reliable approach for valuing billboards because of the limited availability of reliable data for individual billboard (sign, structure, and foundation) sales and the difficulty of deriving a reliable income stream attributable solely to an individual billboard's fixed assets. In addition, the cost approach best provides the assessor with a value for the billboard itself that does not include value attributable to the use permit, location (land), or other billboard business intangibles. Application of the three approaches to value to billboards is discussed below.

Cost Approach. Costs may be derived from actual building costs, where available, or from cost manuals. Typical soft costs relating to building permits (usually no more than 10% of cost) and entrepreneurial profit must also be considered. Note that entrepreneurial profit must be shown to exist in the market. (*Rev. & Tax. Code*, § 401.6.) If the replacement cost new less depreciation (RCNLD) method is used, depreciation and obsolescence must be estimated and deducted from replacement cost new. We have attached a table setting forth composite valuation factors which can be used for typical sizes and types of billboards (sign, structure, and foundation). If land is subject to reassessment, its value may be determined through an analysis of comparable sales or ground leases. The land value should include the value attributable to location, as explained above.

Comparative Sales Approach. If this approach is used, each sale must be carefully analyzed so that non-billboard assets are excluded and only the fixed assets comprising the billboard (sign, structure, and foundation) should be considered. If the sale includes multiple billboards, the portion of the sale price which the sale participants attribute to each billboard must be determined. Care should also be taken to remove the value of billboard use permits which have been acquired, and location value should be assigned to land, as discussed above. Once suitable comparables have been identified, appropriate adjustments under Property Tax Rule 4 and Revenue and Taxation Code section 402.5 must be made. A further difficulty in applying this approach is that most billboard sales include an assignment of the ground lease on which the billboard structure is situated; this element must also be factored out the sale price to arrive at the price paid for the billboard fixed assets alone.

In some instances, it may be possible to develop a gross income multiplier (GIM) for a sale by dividing the sale price by the annual gross advertising income which a group of billboards generates. GIMs are commonly used by the billboard industry to determine what price to pay for a group of assets. Using GIMs in the assessment of billboard property, however, will produce excessive taxable values unless significant, and sometimes subjective, adjustments are made. This occurs because GIMs are derived from the total advertising income generated by a group of assets, often found in multiple counties, including non-billboard and non-taxable assets. In addition, the advertising income generated by a group of billboards will usually include non-assessable "synergy" value which results from the operation of a large group of billboards.

<u>Income Approach</u>. In order to apply this approach, the assessor must identify the income stream attributable to the billboard fixed assets alone. Rental comparables are difficult to locate because billboards themselves are rarely leased. If billboard rental comparables are available, the value attributable to the billboard use permit and location must be deducted. Once a gross rental income is determined, appropriate deductions for advertising agency commissions, operating expenses, vacancy, and collection losses must be made. Operating expenses include ground rent, painting and production (poster installation), maintenance, electricity, management, insurance, recurring permit fees, taxes and corporate overhead. After net income is determined, an appropriate capitalization rate must be developed.

Theoretically, an income stream attributable to a billboard's fixed assets could be imputed by taking the total advertising income, or operating income, generated by a specific billboard and deducting certain amounts relating to non-taxable and non-billboard property, such as the billboard use permit and business enterprise value elements, and location. (*Assessors' Handbook* AH-502, pp. 150-165.) This technique is not recommended, however, unless the value associated with the income not attributable to taxable property can be quantified.

<u>Billboard Business Intangibles</u>

If the cost approach is not employed to value billboard property, the value of business-related intangible assets and rights will have to be identified and deducted. This is particularly true when the GIM technique or the income approach are used. The intangibles which may need to be considered include the billboard use permit (including the operating permit); billboard management, marketing and siting abilities; relationships and contracts with landowners, advertisers and advertising agencies; trained and assemble workforce in place; "synergy" value associated with the ownership and operation of multiple billboards; and company reputation or "goodwill." Many of these business-related intangibles have been specifically identified by the courts or other authorities on the assessment of intangible assets and rights. (*Assessors' Handbook* AH-502, pp. 150-165.)

OFF-PREMISE OUTDOOR ADVERTISING SIGNS (BILLBOARDS)

COMPOSITE VALUATION FACTORS
WOOD AND STEEL STRUCTURES

Age	Wood	Steel
0	100%	100%
1	97%	98%
2	94%	96%
3	91%	94%
4	88%	92%
5	84%	89%
6	81%	87%
7	77%	85%
8	73%	82%
9	69%	79%
10	66%	76%
11	62%	74%
12	57%	71%
13	53%	68%
14	49%	64%
15	45%	61%
16	41%	58%
17	37%	55%
18	33%	52%
19	30%	48%
20	30%	45%
21	30%	42%
22	30%	39%
23	30%	36%
24	30%	33%
25	30%	30%

For years 26 and following: 30%

ASSESSMENT OF BILLBOARDS

Description of Billboards

Billboards, or off-premise outdoor advertising signs, make advertising space available to advertisers for display to the public. These signs do not advertise the business or other activity occurring at the site on which the billboard is located. The larger and most common types of billboards are usually located on leased property adjacent to freeways, highways and major thoroughfares throughout California.

Billboards Are Fixtures

Billboards are properly classified as fixtures under Property Tax Rule 122.5(a)(1), which defines a fixture to include an item of tangible property which is "physically or constructively annexed to realty with the intent that it remain annexed indefinitely." In general, billboards are affixed to the ground, are moved infrequently, and are intended to remain annexed indefinitely. These circumstances require that billboards be classified as "fixtures." ~~Because billboards are properly characterized as fixtures, they are subject to depreciation in accordance with depreciation factors for purposes of property tax appraisal and assessment~~.

Billboard Property Components and Appraisal Unit

The appraisal unit refers to the nature and extent of the property being valued. For property tax purposes, unless the law specifically provides otherwise, the appraisal unit is the unit of property commonly bought and sold.

~~A billboard property consists of: (1) a sign (with one or two faces), the wood or steel structure supporting the sign (one or multiple poles), and the foundation in which the structure is anchored; (2) the billboard use permit, including related permits which allow the billboard owner to construct and operate the billboard; and (3) the land on which the billboard is situated.~~

In California, most billboards are owned and operated by billboard operating companies; ~~. The land on which the billboards are situated is separately owned, and~~ billboard owners typically lease the land on which their billboards are located. Sales of billboards normally include (1) the *billboard improvement*~~s themselves~~ (signs, structures, and foundations), ~~related~~ (2) the *billboard use permits*, which allow the billboard owner to construct and operate the billboard; and (3) the leasehold interests in the underlying land parcels. ~~For each billboard, t~~These three elements make up a typical "billboard property," and can be said to constitute the billboard "appraisal unit" because they are commonly bought and sold as a single unit and are normally valued separately. (*Rev. & Tax. Code*, § 51(e); *Assessors' Handbook* AH-502, "Advanced Appraisal" (December

1998), pp. 2-5.) The lessor's interest in the land on which the billboard is located is a separate "appraisal unit."

Siting and construction of billboards is regulated by the Outdoor Advertising Act (*Bus. & Prof. Code*, § 5200, et seq.) and/or by county or municipal ordinances. The Outdoor Advertising Act or these local laws (or both in some instances) control the issuance of billboard use permits. State and local governments have used these laws to limit the number of billboards in many areas. By regulating the number of billboard use permits in existence, government has increased the value of the billboard appraisal unit in many instances. The value resulting from the scarcity of billboard use permits should be attributed to those permits and not to the billboard ~~fixed assets~~improvement~~s~~.

Location must also be considered in assessing billboards. The impact of location on the income which a particular billboard generates, or the price at which that billboard sells, can be considerable. This impact results from the "traffic count" or "exposure" which a particular location provides. However, a higher traffic count has little or nothing to do with a particular billboard (sign, structure, and foundation), but derives from the land on which the billboard is situated. In assessing the billboard appraisal unit, value attributable to location should be assigned to the land and not to the billboard ~~fixed assets~~improvement~~s~~.

~~The billboard (sign, structure, and foundation) and land are usually owned by two separate parties, which results in two separate assessments for a billboard property. When valuing and assessing billboard properties, the billboard fixed assets and the land on which the billboard is situated are separate appraisal units, and each must be separately considered. The third element of billboard property, the~~ The billboard use permit~~,~~ is an intangible asset under section 110(e) which is necessary for the beneficial and productive use of the billboard property ~~(billboard itself and land)~~. As an intangible asset which is not itself assessable, income attributable to the use permit must be removed from the income to be capitalized (*Assessors' Handbook* AH-502, ~~p~~p. ~~150-165~~163), and allocation of the use permit value to the billboard ~~fixed assets~~improvement or to land is not appropriate ~~(see discussion below)~~. However, since a billboard use permit is necessary to put the land to beneficial and productive use as a billboard site, the land must be assessed and valued by assuming the presence of the use permit. (*Assessors' Handbook* AH 502, pp. 154-155)

Because billboards are fixtures, they must be appraised in accordance with Property Tax Rule 461(e), which provides that, for purposes of decline-in-value determinations, fixtures constitute a separate appraisal unit.

Allocation of Value to Billboard Property Components

The value of the billboard property should be allocated between land (i.e., the leasehold interest in the billboard site) and improvements (i.e., the billboard sign, structure, and foundation) in the following manner.

1. First, the appraiser should estimate the value of the billboard property net of the value of intangible assets and rights. This establishes the taxable value that is to be allocated.

2. Next, the appraiser should estimate the value of the billboard improvement (sign, structure and foundation) based on its cost new less depreciation and allocate this value to the billboard.

~~3.~~Finally, the appraiser should subtract the value allocated to the billboard ~~fixed assets~~improvement from the value of the billboard property, allocating the remainder to the land. In other words, all value of the billboard property in excess of the billboard's depreciated cost should be allocated to the land as a residual. This method of allocation is consistent with the billboard's classification as a fixture and its status as a separate appraisal unit. (Property Tax Rule 461(e).) ~~As a separate appraisal unit, the billboard should be valued separately.~~

The portion of the value of the billboard property that is allocated to the land may or may not be assessable depending on the terms of the underlying ground lease. In order to reassess the value allocated to land, a change in ownership of the land under article XIII A (Proposition 13) must have occurred.

Approaches to Value

All three approaches to value are available to determine the value of a billboard property. ~~According to Property Tax Rule 6, the cost approach is the most reliable approach for valuing billboards because of the limited availability of reliable data for individual billboard (sign, structure, and foundation) sales and the difficulty of deriving a reliable income stream attributable solely to an individual billboard's fixed assets. In addition, the cost approach best provides the assessor with a value for the billboard itself that does not include value attributable to the use permit, location (land), or other billboard business intangibles.~~ Application of the three approaches ~~to value to billboards~~ is discussed below.

Cost Approach. Costs may be derived from actual building costs, where available, or from cost manuals. Typical soft costs relating to building permits ~~(usually no more than 10% of cost)~~ and entrepreneurial profit must also be considered. Note that entrepreneurial profit must be shown to exist in the market. (*Rev. & Tax. Code*, § 401.6.) If the replacement cost new less depreciation (RCNLD) method is used, depreciation ~~and obsolescence~~ must be estimated and deducted from replacement cost new. ~~We have attached a table setting forth composite valuation factors which can be used for typical sizes and types of billboards (sign, structure, and foundation).~~ If the underlying land is subject to reassessment, its value may be determined through an analysis of comparable sales~~ or ground leases~~. The land value should include the value attributable to location, as explained above.

Comparative Sales Approach. ~~If this approach is used, each sale must be carefully analyzed so that non-billboard assets are excluded and only the fixed assets comprising the billboard (sign, structure, and foundation) should be considered. If the sale includes multiple billboards, the portion of the sale price which the sale participants attribute to each billboard must be determined. Care should also be taken to remove the value of billboard use permits which have been acquired, and location value should be assigned to land, as discussed above. Once suitable comparables have been identified, appropriate adjustments under Property Tax Rule 4 and Revenue and Taxation Code section 402.5 must be made. A further difficulty in applying this approach is that most billboard sales include an assignment of the ground lease on which the billboard structure is situated; this element must also be factored out the sale price to arrive at the price paid for the billboard fixed assets alone.~~ In direct sales comparison, a value indicator is developed by comparing a comparable property to the subject property, adjusting the sale price of the comparable property for differences between it and the subject (see Property Tax Rule 4 and Revenue and Taxation Code section 402.5; in the case of a billboard property, if the ground lease does not reflect market rent, it is also necessary to adjust the comparable sales data for this element). Billboard properties, however, typically sell in groups, and there is little data regarding sales of individual billboard properties. This makes it difficult to apply direct sales comparison to billboard properties.

~~In some instances~~Since sales of individual billboard properties rarely occur, it ~~may be possible to~~will usually be more practicable to develop an effective gross income multiplier (EGIM) from sales of groups of billboards properties. ~~for a sale by dividing the sale price by the annual gross advertising income which a group of billboards generates.~~ EGIMs, which are commonly used by the billboard industry to determine what price to pay for a group of ~~assets~~billboard properties,~~. Using GIMs in the assessment of billboard property, however, will produce excessive taxable values unless significant, and sometimes subjective, adjustments are made. This occurs because GIMs are~~ should be derived from the total advertising income generated by ~~a~~the group~~ of assets~~, adjusted for ~~often found in multiple counties, including non-billboard and~~ any non-taxable assets. ~~In addition, the advertising income generated by a group of billboards will usually include non-assessable “synergy” value which results from the operation of a large group of billboards.~~

Income Approach. ~~In order to apply this approach, the assessor must identify the income stream attributable to the billboard fixed assets alone.~~ Rental ~~comparables~~ data are difficult to locate because billboards themselves are rarely leased. If billboard rental comparables are available, the value attributable to the billboard use permit and location must be deducted. ~~Once~~ If ~~a gross~~ rental income is ~~determined~~available, then appropriate deductions for advertising agency commissions, operating expenses, and vacancy~~,~~ and collection losses must be made. Operating expenses include ground rent, painting and production (poster installation), maintenance, electricity, management, insurance, and recurring permit fees~~, taxes and corporate overhead~~. After net income is determined, an appropriate capitalization rate must be developed.

~~Theoretically~~Since rental income is typically unavailable, it will usually be the case that operating income will be used. Under this approach, an income stream attributable to a billboard ~~'s fixed assets~~property ~~could be~~is imputed by taking the total advertising income, or operating income, generated by a specific billboard (or by a group of billboards) and deducting certain amounts relating to non-taxable and non-billboard property, such as the billboard use permit and business enterprise value elements~~, and location~~. (*Assessors' Handbook* AH-502, pp. 150-165.) ~~This technique is not recommended, however, unless the value associated with the income not attributable to taxable property can be quantified.~~

Under Property Tax Rule 8, rental income is preferred to operating income when estimating the income to be capitalized. Rental income is generally directly attributable to the use of taxable property. Operating income, by contrast, may be attributable, in part, to nontaxable intangible assets and rights relating to a business.

Billboard Business Intangibles

If the cost approach is not employed to value a billboard property, the value of business-related intangible assets and rights will have to be identified and deducted. This is particularly true when the EGIM technique or the income approach are used. ~~The~~ Such business-related intangibles ~~which~~ may ~~need to be considered~~ include the billboard ~~use~~ operator's permit ~~(including the operating permit); billboard management, marketing and siting abilities; relationships and contracts with landowners, advertisers and advertising agencies; trained and assemble workforce in place; "synergy" value associated with the ownership and operation of multiple billboards;~~ and company reputation or "goodwill." ~~Many of these business-related intangibles have been specifically identified by the courts or other authorities on the assessment of intangible assets and rights. (*Assessors' Handbook* AH-502, pp. 150-165.)~~

~~OFF-PREMISE OUTDOOR ADVERTISING SIGNS (BILLBOARDS)~~

~~COMPOSITE VALUATION FACTORS~~
~~WOOD AND STEEL STRUCTURES~~

~~Age~~	~~Wood~~	~~Steel~~
~~0~~	~~100%~~	~~100%~~
~~197%~~	~~98%~~	
~~294%~~	~~96%~~	
~~391%~~	~~94%~~	
~~488%~~	~~92%~~	
~~584%~~	~~89%~~	
~~681%~~	~~87%~~	
~~777%~~	~~85%~~	
~~873%~~	~~82%~~	
~~969%~~	~~79%~~	
~~1066%~~	~~76%~~	
~~1162%~~	~~74%~~	
~~1257%~~	~~71%~~	
~~1353%~~	~~68%~~	
~~1449%~~	~~64%~~	
~~1545%~~	~~61%~~	
~~1641%~~	~~58%~~	
~~1737%~~	~~55%~~	
~~1833%~~	~~52%~~	
~~1930%~~	~~48%~~	
~~2030%~~	~~45%~~	
~~2130%~~	~~42%~~	
~~2230%~~	~~39%~~	
~~2330%~~	~~36%~~	
~~2430%~~	~~33%~~	
~~2530%~~	~~30%~~	

~~For years 26 and following: 30%~~