



STATE BOARD OF EQUALIZATION
PROPERTY TAXES DEPARTMENT
450 N STREET, MIC: 64, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
TELEPHONE (916) 445-4982
FAX (916) 323-8765
www.boe.ca.gov

July 10, 2002

JOHAN KLEHS
First District, Hayward

DEAN ANDAL
Second District, Stockton

CLAUDE PARRISH
Third District, Torrance

JOHN CHIANG
Fourth District, Los Angeles

KATHLEEN CONNELL
State Controller, Sacramento

JAMES E. SPEED
Executive Director

TO INTERESTED PARTIES:

ASSESSORS' HANDBOOK SECTION 504
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Letter To Assessors 2002/028, dated April 12, 2002, distributed a draft containing proposed changes for an update of Assessors' Handbook Section 504 (AH 504), *Assessment of Personal Property and Fixtures*. Interested parties were asked to submit proposed revisions to the updated text. Staff has reviewed the comments and proposed revisions received and incorporated those that were deemed appropriate.

Enclosed is a matrix compiled from the comments and suggestions received in response to our April 12, 2002 letter inviting input on the draft of AH 504. This matrix contains all proposed changes, originating from both interested parties and staff, together with staff's position in regard to each proposed change.

On July 24, 2002, staff will hold a meeting with interested parties to discuss proposed changes to AH 504 as identified on the matrix. The purpose of the meeting is to reach agreement on the final language of the handbook update. The meeting is scheduled to start at 9:30 a.m. in Room 122, Board of Equalization, 450 N Street, Sacramento.

After the interested parties meeting, the project will proceed as follows:

- Staff will submit an issue paper and other required material for the Property Tax Committee meeting by September 18, 2002.
- The Board's Property Tax Committee will hear discussion of any unresolved issues at its October 2, 2002 meeting.

All documents related to this project are available on the Board's Web site (www.boe.ca.gov) and can be accessed by way of the following links: (1) Property Taxes, (2) Property Tax Committee Work Plans, (3) Property Tax Committee Work Plans 2002.

If you plan to attend the July 24 meeting, please contact Ladeena Ford at (916) 324-5839; e-mail at ladeena.ford@boe.ca.gov. Thank you for your continued interest in this project.

Sincerely,

David J. Gau
Deputy Director
Property Taxes Department

DJG:lf
Enclosure

**ASSESSORS' HANDBOOK SECTION 504,
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

Comments on April 12, 2002 Draft

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|------------------------|----|--|--|---|
| 1. | 1 | 12 | Jim Bone (Squar, Milner & Reehl, LLP) | This taxable property may be defined as real property and <u>tangible</u> personal property. This section of the Assessors' Handbook deals with appraisal and assessment procedures for taxable <u>tangible</u> personal property and fixtures, and it includes discussions of property tax audits, roll changes and reporting requirements. | Not accepted. AH 502 includes an entire section devoted to the treatment of intangible rights and assets. Introduction of the term intangible (versus tangible) in this handbook section would necessitate clarifying language and is not within the scope of this update. |
| 2. | 2 | 1 | Jim Bone | (A) Personal property, on the other hand, is defined by exception; personal property is all property except real estate. <u>There are two forms of personal property: tangible and intangible. The Legislature has specifically stated that all forms of intangible personal property are exempt from taxation (FN section 212). Thus, only tangible personal property is taxable in California.</u> (B) <u>Tangible personal property</u> is defined as all "property that may be seen, weighed, measured, felt, or touched, or which is in any manner perceptible to the senses" except real property as defined above. (FN: Rule 123 ...) | (A) Not accepted. See staff comment for item 1. (B) Accepted as minor update, with the exception of deleting the footnote. Tangible personal property is the title of Rule 123 and the definition is from this rule. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|---|---|---|
| 3. | 2 | 4 | Jim Bone | <p>(A) All property defined as <u>tangible</u> personal property is not necessarily taxable. Unlike real property, personal property may, in whole or in part, be exempted by the Legislature.</p> <p>(B) Examples of current exemptions <u>of tangible personal property</u> provided by legislative statute include: <u>equipment used by schools and universities, business inventories</u>, personal household furnishings, personal effects, and pets. But in general, <u>most tangible</u> personal property remains taxable.</p> <p>Comment: Business inventories is used as an example in the next section – the change is only to present a different example is possible.</p> | <p>(A) Not accepted. See staff comment for item 1, see staff rewrite for item 4.</p> <p>(B) Not accepted. Use of the term "include" indicates that this list was not meant to be all inclusive.</p> |
| 4. | 2 | 4 | California Assessors' Association (CAA) | All property defined as personal property is not necessarily taxable. | <p>Accepted with modified text. Minor update.</p> <p>"<u>Not a</u>All property defined as personal property is not necessarily-taxable."</p> |
| 5. | 2 | 23 | CAA | Before declines in value can be recognized, machinery and equipment classified as improvements must be separated from other improvements <u>and valued as a separate appraisal unit by the assessor.</u> | <p>Not accepted. Language adds an additional criterion that is not consistent with Rule 461(e).</p> <p>In addition, issue is not within the scope of this update.</p> |
| 6. | 3 | 1 | CAA | An appraiser or auditor-appraiser assessing personal property should be familiar with the differences listed <u>herein above</u> , as well as other basic appraisal concepts as discussed in AH 501, <i>Basic Appraisal</i> , and generally accepted accounting principles (GAAP). | Accepted. Minor update. |
| 7. | 3 | 28 | Jim Bone | <p><u>Tangible P</u>personal property is and can be exempt by reason of its <i>ownership, use, and/or type</i>.</p> <p>Comment: Are business inventories and household personal property good examples of "type" exemptions?</p> | <p>Not accepted.</p> <p>See staff comments for items 1 and 8.</p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|----------|---|---|
| 8. | 4 | 1 | CAA | Business inventories and household personal property are exempt by <u>category</u> type . | Not accepted. The purpose of this sentence is to provide an example of personal property that can be exempt by reason of its ownership, use, and/or type. "Category" is not a term used in this discussion. |
| 9. | 8 | 20 | Jim Bone | Most <u>tangible</u> personal property has a degree of mobility; it can be moved from location to location or out of the taxing jurisdiction in which it had situs on the lien date. | Not accepted. See staff comments for item 1. |
| 10. | 11 | 12 | CAA | ... (4) fixtures are a separate appraisal unit when measuring declines in value <u>when valued as a separate unit by the assessor</u> . | Not accepted. Language adds an additional criterion that is not consistent with Rule 461(e). In addition, issue is not within the scope of this update. |
| 11. | 12 | 23 | Jim Bone | <u>Taxable Ppersonal property</u> includes all <u>tangible</u> property except real estate. (FN) | Not accepted. See staff comments for item 1. |
| 12. | 13 | | CAA | Comment: The CAA encourages review of text related to the three tests for determining classification (pg. 13 et. seq.). They believe the second test is incorrectly stated. "Adaptability to real estate" rather than "construction annexation" is a more accurate description of the second test. | Rule 122.5 specifically identifies the second test for determining whether or not an item has become a fixture as "constructive annexation." In addition, revision of this section is not within the scope of this update. |
| 13. | 17 | 5 | CAA | Fixtures <u>may be treated as</u> are a separate "appraisal unit" when measuring declines in value, (Rule 461(e)) . | Not accepted. Language not consistent with Rule 461(e). In addition, issue not within the scope of this update. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|--------------|--|--|
| 14. | 20 | 18 | Jim Bone | <u>Tangible</u> Personal Property (General Categories) | Accepted. Minor update. Heading immediately precedes definition of tangible personal property, Rule 123. In addition, categories described in section are limited to tangible personal property categories. |
| 15. | 20 | 19 | Jim Bone | Tangible Personal property, as defined earlier, is all property except real estate. Rule 123 defines (tangible) personal property <u>is defined in Rule 123 as:</u> | Accepted. Minor update. Tangible personal property is the title of Rule 123. Definition is from this rule. |
| 16. | 20 | 24 | Jim Bone | In general, <u>tangible</u> personal property is sub-classified according to type as provided on property statements: equipment, supplies, vessels, aircraft, and manufactured homes. | Not accepted. See staff comments for item 1. |
| 17. | 30 | 10 | David Lucero | <p>Comment:</p> <p>Revise language regarding the taxability of personal property in the discussion of Situs of Personal Property.</p> <p>For example, line 10 on page 30 states that "property with a taxable situs outside of California almost without exception, is not assessable here." A taxable situs does not have to be part of the equation in states that do not tax personal property or if the situs is in another country such as Mexico that would not tax the property. Some states such as Oregon do not tax boats or aircraft but have a license fee on them, so there is no taxable situs there. Dependent on the circumstances, if a resident of California owns property and keeps it outside of California, a temporary presence of that property in California would not make it subject to property taxes.</p> <p>All references to property with a situs outside of California should not say that it has to have a <u>taxable situs</u> outside of California.</p> | Not accepted. Taxable situs does not mean assessable situs. The current language in the handbook is consistent with statutes and case law on the subject. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|----------|--|--|
| 18. | 30 | 7 | Jim Bone | A property tax appraiser or auditor-appraiser is concerned with the property's taxable situs on the <u>January 1</u> lien date. | Accepted. Minor update. In addition, SBE staff proposes moving the sentence shown in parenthesis (shown as a strike-out in the draft distributed 4/12/02) to a footnote: <u>A property tax appraiser or auditor-appraiser is concerned with the property's taxable situs on the January 1 lien date. (FN: Prior to 1997, the lien date was on March 1. In 1997, the lien date was changed to January 1.)</u> |
| 19. | 31 | 12 | Jim Bone | There was no dispute that the location of the equipment on the March 1 lien date (FN) was Nevada County, California, but the assessee sued for prorated assessment to avoid possible duplicate assessment of the property at the new location. The court found Nevada County's entire assessment valid based on permanent situs of the property (in that county) on the March 1 lien date. | Not accepted. The example in this paragraph references a court case. At the time of this case, the lien date was March 1. Staff's proposed draft deletes the footnote that references the change in the lien date. Since this change caused some confusion, staff proposes to not delete footnote 59. See item 21. |
| 20. | 31 | 31 | CAA | (Rule 205 does not apply to vessels, certificated aircraft, and racehorses.) <u>The situs rule for each of these exceptions is discussed later in this chapter.</u> | Accepted with modified text. Minor update. Because these exceptions are controlled by statutes and rules, SBE staff proposes the following rewrite: <u>Situs for each of these exceptions is discussed later in this chapter.</u> |
| 21. | 31 | FN | CAA | Comment: Leave footnote 59 in handbook. | Accepted. |
| 22. | 42 | 21 | CAA | Comment: Define burden, i.e., net tonnage or gross tonnage. | Accepted. SBE staff proposes following rewrite, consistent with AH 576, <i>Assessment of Vessels</i> : ...vessels of more than 50 tons <u>net</u> burden ... |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|-----------|--|--|
| 23. | 46 | 10 | SBE Staff | In <i>Hays v. Pacific Mail S.S. Co.</i>, t The United States Supreme Court granted the domiciliary state the power to tax in full and denied the power to tax to all other jurisdictions, regardless of where the vessel happened to be actually located on the lien date. (FN <i>Hays v. Pacific Mail S.S. Co.</i> , supra.) | SBE staff rewrite. |
| 24. | 47 | | CAA | Add example regarding situs of vessels. Example submitted by CAA included as separate attachment identified as Example 3.4, Situs of Vessel. | Not accepted. The example presented is more appropriate for consideration in the update of AH 576. Additionally, the example in AH 504 is consistent with the situs example currently in AH 576. (The proposed example has been placed in the drop file for the next update of AH 576.) |
| 25. | 50 | 28 | CAA | Fair market value as defined <u>in appraisal terms</u> by the auditor appraiser and net book value as defined <u>in accounting terms</u> by the accountant are separate concepts. | Accepted. Minor update. |
| 26. | 51 | 29 | CAA | It is the method of valuation used most frequently to value personal property and business fixtures for assessment purposes because it lends itself to mass appraisal (FN) and is easily employed based on information provided on yearly property statements. | Accepted. Minor update. |
| 27. | 52 | 10 | CAA | The reproduction cost approach, as a variation of the cost approach, <u>will have</u> has limited usefulness <u>if the property being valued is subject to significant technological change</u> because it uses reproduction cost (the cost to replace an existing property with an identical property, a replica) as a basis for estimating value. | Not accepted. This section gives a basic definition of reproduction cost that is consistent with AH 501, Basic Appraisal. |
| 28. | 53 | 19 | CAA | In general, these variations of the cost approach use historical or original cost (FN) information to estimate a reproduction cost new (current cost new to reproduce an <i>identical</i> property) or replacement cost new (current cost new to replace a property with a <i>similar</i> property of the same utility). | Not accepted. Reproduction cost new is the term defined in the following parenthesis in that sentence. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|----------|--|---|
| 29. | 53 | 26 | CAA | Use of indexes provided in AH 581 and <u>depreciation factors based on the economic life of the subject property give an indication of asset lives based on a valid service life estimates</u> what the market value <i>should</i> be for a property based on a broad, but similar "market basket." | Accepted with modified text. Minor update. Use of indexes provided in AH 581 and <u>percent good factors provided in the AH 581 based on the estimated remaining economic life of the subject property give an indication of asset lives based on a valid service life estimates</u> what the market value <i>should</i> be for a property based on a broad, but similar "market basket." |
| 30. | 53 | 28 | CAA | In most cases it is a practical method to apply for mass appraisal purposes, although it does not always reflect all types of <u>appreciation or depreciation</u> for all types of property; additional adjustments <u>may be</u> are necessary. | Not accepted. This text is part of a discussion on the use of the indexes provided in AH 581. AH 581 does not discuss appreciation; therefore, introduction of this concept is not appropriate for inclusion in this text. |
| 31. | 54 | 3 | CAA | ...to value utilized. <u>The annual Business Property Statement filing is the document that allows property owners to identify all property specific conditions that would warrant adjustment beyond normal appreciation and depreciation guidelines.</u> | Not accepted. Supplemental information that may be presented by the assessee may be valid, whether or not submitted with the business property statement. |
| 32. | 54 | 13 | CAA | If either the historical cost or the cost to the current owner does not accurately reflect all valid cost components or market value at the time the property was purchased, (FN) resulting reproduction or replacement cost new less depreciation and value estimates <u>may</u> will not be good indicators. | Accepted. |
| 33. | 55 | | Jim Bone | Comment: I don't believe that "profit" is a direct cost as shown in Table 4A. | Not accepted. "Profit" is listed as a direct cost in <i>The Appraisal of Real Estate</i> , 12 th Ed., page 359, Appraisal Institute, 2001. In addition, revision of this section is not within the scope of this update. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF |
|------|---------------------|----|-----------|---|---|
| | | | | | POSITION/COMMENTS |
| 34. | 57 | 12 | CAA | Consequently, the reproduction or replacement of such property should not include sales tax, unless or until the property is put to private use or rented to a private party. (FN) | Not accepted. Revision consistent with Board approved language in AH 581 (Adopted 11/29/01). |
| 35. | 57 | 20 | CAA | Local These portions of the sales tax will continue to be included in the economic cost of the property for property tax valuation purposes. | Accepted with modified text. <u>Local, city, county, and district</u> These portions of the sales tax will continue to be included in the economic cost of the property for tax valuation purposes. |
| 36. | 57 | 24 | CAA | <i>Qualified person</i> means any person engaged in the line of business described in the each exemption and <i>primarily</i> means used 50 percent or more of the time for such purposes. | Accepted. |
| 37. | 61 | 16 | SBE Staff | These types of adjustments to purchase price are allowable <u>Discounts and rebates are therefore excluded from the full economic cost of equipment</u> for property tax assessment purposes. | Modified to provide clarity. |
| 38. | 61 | 21 | SBE Staff | These types of adjustments to purchase prices are not allowable <u>items are therefore included in the full economic cost of equipment</u> for property tax assessment purposes. | Modified to provide clarity. |
| 39. | 62 | 7 | SBE Staff | Additional adjustments to <u>Other items are excluded from</u> a property's full economic cost would be allowable if <u>when</u> "other assets" are included in a purchase contract. | Modified to provide clarity. |
| 40. | 62 | | SBE Staff | Table 4B Headings: Adjustment Allowed for Assessment Purposes Excluded from Full Economic Cost No Adjustment Allowed for Assessment Purposes Included in Full Economic Cost | Modified to provide clarity. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|---|---|--|
| 41. | 71 | 35 | CAA | This type of depreciation may include the loss of value due to: inflation, high interest rates, legislation, environmental factors, reduced demand for the product, increased competition, changes in raw material supplies, and increasing costs of raw material, labor or utilities without a corresponding price increase of the product. | Not accepted. Inflation and high interest rates are some of the causes of external obsolescence. In addition, revision of this topic is not within the scope of this update. |
| 42. | 73 | 6 | Joseph Vinatieri (Bewley, Lessleben & Miller, LLP) | ...is the preferred method. Therefore, application of this approach would likely be infrequent. | Not accepted. Revision of this topic is not within the scope of this update. |
| 43. | 73 | 16 | CAA | The first step in the calculation process is to "trend" the historical cost of the property to an estimated reproduction or replacement cost new (cost x index factor). | Not accepted. Revision consistent with Board approved language in AH 581 (Adopted 11/29/01). |
| 44. | 73 | 19 | CAA | The next step is to multiple the trended historical/original cost by a percent good factor to estimate the market value of the property, reproduction or replacement cost new less normal depreciation (RCNLD). | Not accepted. Revision consistent with Board approved language in AH 581 (Adopted 11/29/01). |
| 45. | 73 | 20 | Joseph Vinatieri | The next step is to multiply the trended historical/original cost by a percent good factor to estimate the market value of the property, reproduction or replacement cost new less normal depreciation (RCNLD). Comment: RCNLD usually refers to replacement cost new less depreciation. RCNLD is not synonymous with reproduction cost. (See page 81, line 7.) | Accepted. |
| 46. | 73 | 27 | CAA | If an <u>increase in income or, an</u> additional income decline over and above that included in the tables occurs and can be demonstrated, a recomputation should be made by adjusting the income adjustment factor. | Accepted with modified text, delete comma. If <u>an increase in income or an</u> additional income decline over and above that included in the tables occurs and can be demonstrated, a recomputation should be made by adjusting the income adjustment factor. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|--------|---|--|
| 47. | 74 | 11 | CAA | The indexes published by the BLS and Marshall & Swift are intended to track price changes for a an identical product <u>of like utility</u> sold under identical terms over time, such that the indexes approximate an estimate of replacement reproduction cost new <u>for a product of like utility</u> . | <p>Not accepted.</p> <p>Indexes based on data from Marshall Publication Company and U.S. Bureau of Labor Statistics. Marshall indicates that their indexes "replicate the cost of already installed equipment" (6/11/01 letter from Marshall to SBE staff). The BLS stated that "the goal of the BLS is to follow, over time, the price of an identical product sold under identical terms of transaction" (8/24/01 letter from BLS to SBE staff).</p> <p>Revision consistent with Board approved language in AH 581 (Adopted 11/29/01).</p> |
| 48. | 74 | 15 | CAA | Thus, when the original cost of property is multiplied by the Board's index factor for the year of acquisition, the product typically approximates current <u>replacement reproduction</u> cost new. | <p>Not accepted.</p> <p>Revision consistent with Board approved language in AH 581 (Adopted 11/29/01).</p> |
| 49. | 74 | 35 | CAA | The index factors in AH 581 are intended to be used to provide a time-efficient method of making reasonable estimates of <u>replacement reproduction</u> cost for typical properties; the factors are a tool for estimating fair market value. | <p>Not accepted.</p> <p>Revision consistent with Board approved language in AH 581 (Adopted 11/29/01).</p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|---------------|--|---|
| 50. | 75 | 10 | Madera County | <p>Revise the text on lines 10-13 to read as follows:</p> <p><u>Price Changes</u></p> <p>Price changes are usually an increasing factor (inflation). During those periods of time when the cost of raw material and/or labor actually declines, however, price changes may be a decreasing factor (deflation).</p> <p><u>Price changes are measured from a base year, in which a beginning index number is typically set at 100. If raw materials, labor and other costs rise, the index will probably rise above 100. In a period when the costs of the factors of production decline, the index may fall below 100. As economic conditions change over long periods of time, price and other indices can become difficult to interpret. It may become necessary to choose a new base year, so that people can relate to more recent events. In that case, in order to reflect the then current economic conditions, the price index will be reset to 100 in the newly chosen base year, to start again.</u></p> | <p>Accepted with modified text.</p> <p>Keep existing language but add the following at the end of line 13:</p> <p><u>Price changes are usually an increasing factor (inflation). During those periods of time when the cost of raw material and/or labor actually declines, however, price changes may be a decreasing factor (deflation). Price changes are measured from a base year, in which a beginning index number is typically set at 100. If raw materials, labor and other costs rise, the index will probably increase. In a period when the costs of the factors of production decline, the index may decrease.</u></p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|---------------|---|---|
| 51. | 75 | 15 | Madera County | <p>Revise the text on lines 15-17 to read as follows:</p> <p><u>Effects of Technological Progress</u></p> <p>The effect of technological progress may have a reducing effect contrary to inflation. If any technological progress has occurred since the acquisition date of an asset, the cost of performing the identical functions may drop. High technology and other industrial equipment frequently suffer systematic functional obsolescence due to technological progress. For example, non production computers have simultaneously become more powerful and less expensive for many years. As a result, older computers have become progressively more obsolete each year; functional obsolescence is normal for these assets.</p> <p><u>If technological progress has occurred since the acquisition date of an asset, the cost of producing a physically similar but technologically superior asset may now be lower. Consequently, the current market price of a newly produced asset may be low when compared to products produced in the recent past, and may cause the current market value of previously existing assets to decline. High technology equipment, for example, typically suffers greater than normal functional obsolescence due to technological progress.</u></p> | <p>Accepted with modified text.</p> <p>Delete paragraph as suggested by Madera County and replace with the following paragraph that is consistent with Board adopted language in AH 581.</p> <p><u>If technological progress has occurred since the acquisition date of an asset, the cost of producing a functionally superior but physically similar asset may now be lower. Consequently, the current replacement cost new of previously existing assets will probably decline. High technology equipment, for example, typically suffers greater than normal functional obsolescence due to technological progress.</u></p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|---|------------------|--|--|
| 52. | 76 | 1 | Madera County | <p>Revise the text on lines 1-2 to read as follows:</p> <p>...equipment design, material, or process, changes in taste in the marketplace, regulatory requirements, or lower costs for new equipment. <u>The effects of technological advance may include the increased capacity of new equipment, changes in equipment design, materials and processes, and lower costs for new equipment. Forces that may cause changes in technology include changes in taste in the marketplace, such as the bells and whistles desired by consumers on new automobiles, and regulatory requirements created by legislative or bureaucratic agencies.</u></p> | <p>Accepted with modified text.</p> <p>...equipment design, material, or process, changes in taste in the marketplace, regulatory requirements, or lower costs for new equipment. <u>The effects of technological advance may include the increased capacity of new equipment, changes in equipment design, materials and processes, and lower costs for new equipment. Forces that may cause obsolescence include changes in taste in the marketplace and regulatory requirements.</u></p> |
| 53. | 76 | 5 | CAA | <p>Evidence presented to the assessor should be <u>provided at the time the business property statement is filed,</u> reviewed and considered.</p> | <p>Accepted with modified text.</p> <p>Evidence presented to the assessor, <u>at the time that the business property statement is filed, allows the assessor time to</u> should be reviewed and considered <u>the evidence prior to the closing of the assessment roll.</u></p> |
| 54. | 76 | 5 | Joseph Vinatieri | <p>Evidence presented to the assessor should <u>must</u> be reviewed and considered.</p> <p>Comment: If evidence is presented to the assessor to show that the index factors are inaccurate, it is mandatory that the evidence be reviewed by the assessor. The assessor can then choose to accept the evidence, reject the evidence or accept in part or reject in part, the evidence.</p> | <p>See staff's text in item 53.</p> <p>There is no statutory authority that mandates an assessor to consider supplemental evidence.</p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|------------------|--|---|
| 55. | 76 | 8 | CAA | An independent appraisal is an appraisal conducted by a <u>licensed appraisal</u> an outside agency that specializes in valuation of personal property and fixtures. | Accepted with modified text. An independent appraisal is an appraisal conducted by an outside agency <u>unrelated firm</u> that specializes in <u>the</u> valuation of personal property and fixtures. |
| 56. | 76 | 11 | CAA | The format presented <u>must clearly identify</u> may be partly due to the appraisal approach (i.e., cost, comparative sales, and income) utilized by the appraiser. | Accepted with modified text. The format presented <u>must clearly identify</u> may be partly due to the appraisal approach <u>and may vary depending on the appraisal approach</u> (i.e., cost, comparative sales, and income) utilized by the appraiser. |
| 57. | 76 | 13 | CAA | The e Evidence may also be presented in the format of a market study <u>conducted by a recognized appraisal agency.</u> | Not accepted. Not sure how the assessor or assessor's staff can determine if the agency that submitted the study is a recognized appraisal agency. The assessor or assessor's staff can evaluate the information presented to them. |
| 58. | 76 | 17 | CAA | Data used for the market study should include recent market sales <u>that meet all conditions of an arms-length transaction.</u> Data from bankruptcy and/or liquidation sales would not provide good indications of market value. | Accepted. |
| 59. | 76 | 21 | Joseph Vinatieri | When reliable evidence of current replacement costs is available, it may be <u>is</u> more appropriate to use market-indicated costs rather than trended historical costs. Comment: If there is accurate market related data, this data is much more appropriate to utilize than trended cost. | Not accepted. (This sentence was moved from page 78, lines 15 to 16.) The text following this sentence provides further guidance regarding <i>reliable evidence</i> . In context of this paragraph as a whole, "may be" is more appropriate than "is". |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|--------|---|---|
| 60. | 76 | 22 | CAA | Price lists and used equipment price guides <u>may</u> provide market-indicated costs <u>if equipment is of like utility</u> . | Not accepted. Price lists and used equipment guides should be used to value specific equipment, not equipment of like utility. |
| 61. | 76 | 29 | CAA | The methods mentioned above are provided as examples of methods that may be utilized to determine fair market value when <u>it is necessary to test whether</u> application of index factors and percent good factors in AH 581 do not provide an acceptable value indicator. Other methods may be <u>presented by qualified appraisers</u> useful depending on the type of data available. | Accepted with modified text. The methods mentioned above are provided as examples of methods that may be utilized to determine fair market value when <u>it is necessary to test whether the</u> application of index factors and percent good factors in AH 581 do not provide an acceptable value indicator. Other methods may be <u>presented useful</u> depending on the type of data available. Comment: Not sure how the assessor or assessor's staff can determine if the appraiser was or was not qualified. The assessor or assessor's staff can evaluate the information presented to them. |
| 62. | 76 | 32 | CAA | Some areas the assessor <u>regularly should</u> considers when reviewing evidence presented include the following: | Not accepted. The handbook is giving direction; therefore, "should" is the appropriate term for this sentence. |
| 63. | 76 | 35 | CAA | Does <u>Is the appraisal method</u> utilized by the assessee to estimate fair market value <u>utilize appropriate adjustments? reasonable?</u> | Accepted with modified text. Does <u>Is the appraisal method</u> utilized by the assessee to estimate fair market value <u>include appropriate adjustments? reasonable?</u> |
| 64. | 76 | 36 | CAA | Is <u>Are the sources for</u> the data <u>provided by the property owner used</u> verifiable? | Accepted with modified text. Are the sources for the data <u>provided by the property owner used</u> verifiable? |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|------------------|---|--|
| 65. | 77 | 1 | CAA | Was the data applied/interpreted <u>by a qualified appraiser?</u> logically? | Not accepted. See staff comment for item 61. |
| 66. | 77 | 1 | Joseph Vinatieri | Was the data applied/interpreted logically <u>correctly</u> ? Comment: The use of data in a logical manner is appropriate. However if the data is flawed and/or used incorrectly, it doesn't matter how logical the application is...the result is incorrect. | Accepted. |
| 67. | 78 | 20 | CAA | In a mass appraisal program, percent good factors are frequently used in estimating <u>remaining value</u> . depreciation. Percent good, as a percentage, is the complement of depreciation. For example, if total depreciation is 20 percent, then percent good is 80 percent. The percent good concept is used in the appraisal process <u>because for two reasons: (1) it focuses the appraisal on the benefits remaining or the economic life remaining in the property rather than the benefits used;</u> and (2) it saves on arithmetical operation when estimating market value. | Not accepted. Revision of this section not within the scope of this update. |
| 68. | 78 | 28 | CAA | Obviously, i In mass appraisal situations, estimating life for each piece of equipment is not practical; therefore, service life is not generally estimated on an individual basis. | Accepted. Minor update. |
| 69. | 79 | 5 | CAA | Any percent good table or depreciation schedule, including those published by the Board, <u>are</u> should be used only as a guide in the estimation of value. | Not accepted. Although a minor update, the current version of the text better describes the advice given. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|-----------|---|---|
| 70. | 79 | 12 | CAA | There may be instances when an appraiser should verify reproduction or replacement cost new less depreciation by other approaches before accepting a mass-appraisal indicator such as the indicator developed from an AH 581 table as the best indicator. <u>Information provided by a property owner when the business property statement is filed is the best indicator that additional review may be warranted.</u> | Not accepted. Revision of this section not within the scope of this update. The term "reproduction" was added in this section only to be consistent with the recent Board adopted language in AH 581. |
| 71. | 79 | 17 | CAA | When necessary, and resources are available, t The assessor may conduct similar such studies to derive his or her own indexes. | Not accepted. Revision of this section not within the scope of this update. |
| 72. | 79 | 28 | CAA | To use sampling, assessors <u>or property owners and auditors</u> must develop and use <u>data and recognized methods that will be accepted by licensed appraisers.</u> with confidence by the Board and assessees. | Not accepted. Revision of this section not within the scope of this update. |
| 73. | 82 | 32 | CAA | All available information <u>reported on the annual business property statement</u> must be analyzed to determine the best indicator of value. | Not accepted. All available information should be considered and analyzed whether or not such information was reported on the annual business property statement. In addition, revision of this section is not within the scope of this update. |
| 74. | 99 | FN | SBE Staff | , which where the <u>appellate</u> court held that under Rule 461(e), ... | Revised to improve clarity. |
| 75. | 104 | | CAA | Example 5.1 Total <u>2001</u> 1997 Cost Total <u>2001</u> 1997 Cost | Accepted. Correction. |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|------------------|---|---|
| 76. | 112 | 9 | Joseph Vinatieri | <p>Add following sentence at the end of line 9:</p> <p><u>However in a subsequent case with a more fully developed factual record, a court found that title to overhead materials did pass to the government and were not assessable to the contractor. (FN: Hughes Aircraft Co. v. County of Orange (2002) 2 Cal.App.4th 540.)</u></p> | <p>Accepted with modified text.</p> <p><u>In a subsequent case, however, a court found that title to overhead property vested in the government, pursuant to the terms of the contract, and was not assessable to the contractor. (FN: Hughes Aircraft Co. v. County of Orange (2002) 96 Cal.App.4th 540.)</u></p> |
| 77. | 119 | 20 | Jim Bone | <p><u>CIP relating to taxable personal property and fixtures is assessable at full cash value on the lien date, as discussed previously in Chapter 5. CIP relating to improvements should be evaluated by a real estate appraiser.</u></p> <p>Comment: Costs included in taxpayers' CIP accounts frequently present very difficult assessment issues, and a statement like "CIP is assessable at full cash value on the lien date" can only lead to problems.</p> | <p>Not accepted.</p> <p>Revision of this topic and/or section is not within the scope of the handbook. In addition, the last paragraph in this section directs the reader to coordinate with the real property appraiser to ensure proper classification and valuation.</p> |
| 78. | 125 | | SBE Staff | <p>Correct Example 6.2 (Continued), Reverse Trending</p> <p>1993 Full Economic Cost 7,484,819<u>7,535,762 (1)</u></p> <p>Note at bottom of example:</p> <p><u>(1) 2002 \$s 9,005,592 – 414,823 = 8,590,769</u></p> <p><u>1993 \$s 8,590,769/1.14 = 7,535,762</u></p> | <p>Modified to correct and explain calculation.</p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|-----------|--|---|
| 79. | 127 | 29 | Jim Bone | <p>Add following paragraph:</p> <p><u>The appraisal issues presented by technological progress discussed at page 75 may impact taxpayers' decisions relating to capitalization minimums and resulting expensed equipment. Auditor appraisers should consider the relationships between reported asset costs, expensed equipment, and supplies when determining appropriate fair market values of each classification.</u></p> <p>Comment: Expensed equipment has become a very difficult audit area in the high-tech industries.</p> | <p>Not accepted.</p> <p>Guidance provided in current section is appropriate. In terms of high tech equipment, the last sentence in the paragraph will guide the auditor-appraiser to value expensed high tech equipment similarly to high tech equipment that is capitalized.</p> |
| 80. | 141 | 1 | SBE Staff | <p>Change heading to following:</p> <p>Processing <u>Property</u> Statements</p> | <p>Added to make specific.</p> |
| 81. | 149 | | SBE Staff | <p>Change heading on Table 7A to the following:</p> <p>Sample Property Statement <u>Processing</u> Checklist</p> | <p>Added to further specify.</p> |
| 82. | 157 | | CAA | <p>Section 469 summary, 3rd sentence:</p> <p>Upon discovery of such escaped property, the assessee has a right to appeal the assessed value of all the property, except property previously equalized, at the location of the profession, trade, or business that is the subject <u>of the</u> to-audit, regardless of whether the assessor actually enrolls an escape assessment. (FN)</p> | <p>Accepted.</p> |
| 83. | 160 | 15 | CAA | <p>If a discrepancy is found, the auditor must continue and audit the remaining years unless (1) the discrepancy or irregularity in the "sample" year is peculiar to that year and (2) the discrepancy or irregularity did not result in an escape assessment (i.e., refund).</p> | <p>Accepted.</p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|----|------------------|---|--|
| 84. | 182 | 19 | CAA | <u>Preliminary audit findings transmitted via a Notice of Proposed Escape Assessment do not reflect results. An audit must be finalized before any follow-up steps occur.</u> | <p>Not accepted.</p> <p>Not sure what is meant by follow-up steps. If follow-up steps refer to filing an appeal after an audit, a discussion under the heading titled <i>Notice for Filing an Application</i> provides guidance regarding what serves as a notice in terms of follow-up steps.</p> <p>In addition, Chapter 9 provides further discussion regarding Notice of Proposed Escape Assessment.</p> |
| 85. | 183 | 17 | Joseph Vinatieri | ...escape assessment." (FN 301) <u>Property shall be deemed previously equalized for the year in question only if the board previously made a final determination of full value for that item, category, or class of property that was the subject of an assessment appeals hearing or was the subject of a stipulated agreement approved by the board and specifically identified. (FN: Rule 305.3(b)(7)).</u> | <p>Not accepted.</p> <p>The proposed language is out of context for the subject of that paragraph (i.e., property subject to an escape assessment).</p> |
| 86. | 186 | 17 | Jim Bone | In general, California law provides, within specified time limitations , that an most erroneous assessments is must to be corrected, regardless of the cause of the error and regardless of whether the error resulted in an overassessment or an underassessment. | <p>Accepted with modified text.</p> <p>In general, California law provides <u>procedures for correcting errors and omissions on the assessment roll</u>, within specified time limitations, that an erroneous assessment is to be corrected, regardless of the cause of the error <u>or omission</u> and regardless of whether the error resulted in an overassessment or an underassessment.</p> <p>See rules 263 and 264.</p> |
| 87. | 186 | 22 | Jim Bone | Both the limitation on time, <u>if applicable</u> , (statute of limitations) and the procedure for making a correction vary greatly according to the nature and the cause of the error. | <p>Accepted with modified text.</p> <p>Both the limitation on time, <u>(i.e., statute of limitations), if applicable</u>, and the procedure for making a correction vary greatly according to the nature and the cause of the error.</p> <p>See rules 263 and 264.</p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|---|--------------|--|---|
| 88. | 191 | 2 | Jim Bone | <p>Roll corrections must be made within four years after making the original assessment that is being corrected.</p> | <p>Accepted with modified text.</p> <p>Roll corrections must be made <u>Errors and omissions not involving the assessor's value judgment must be corrected</u> within four years after making the original assessment that is being corrected.</p> <p>See rule 263.</p> |
| 89. | N/A | | Richard Lane | <p>Comments for items 89 and 90 on the sampling appendix.</p> <p>The appendix on sampling doesn't mention the technique of bootstrapping (or resampling), which is ideally suited to evaluating sample-based depreciation studies. The tables published for sales tax work and other simple estimations of parameters are not very useful for the complicated mathematical formulations that go into deriving a depreciation schedule from sampled data, but the bootstrap method solves the problem very neatly. It's a comparatively new technique (developed in 1986, after a lot of us got out of school), but extremely useful. I'd recommend that it be cited as a good way to evaluate samples.</p> | <p>Not accepted.</p> <p>Revision of this topic and/or section is not within the scope of the handbook.</p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|--|--------------|--|---|
| 90. | N/A | | Richard Lane | <p>The same sampling appendix has five reference texts cited at the back. Four of the 5 texts were out of print when I tried to buy them. The years of publication are 1974, 1975, 1977, 1981, and 1997, and only the last one is still in print. It doesn't really help anybody to have references to out of print texts that can't be purchased, and of course out of print textbooks are also likely to be out of date. In particular, the four that are out of print couldn't possibly include anything on the bootstrap method, since it wasn't developed until 5 years after any of those books were printed.</p> | <p>Not accepted.</p> <p>Revision of this topic and/or section is not within the scope of the handbook. In addition, all publications continue to be available; 2 can be purchased new and the remaining 3 are located at various libraries.</p> |
| 91. | N/A | | Richard Lane | <p>Comment on the appendix on the application of the market method.</p> <p>The market method appendix contains the text, "Factors derived using the methodology illustrated in the example below are easily verifiable when prices can be determined at specific points in time and data are available. Care must taken when applying factors derived using this method in subsequent years. These markets are not static." This statement is quite misleading, even if literally more or less accurate. The only official SBE depreciation tables presently based on market data are the series for computer valuation. Those tables were based on data gathered in 1995 and 1996, and the tables haven't changed for 6 years now. If any market is "not static", as the present AH504 text reads, it is the market for computers, and yet the tables are 6 years old now. I think all Assessors routinely use the SBE computer tables, and I don't think anybody has appealed them, i.e., they have been good for everybody. I think the handbook language should reflect the current realities and practice of valuation.</p> | <p>Not accepted.</p> <p>Revision of this topic and/or section is not within the scope of the handbook.</p> |

| ITEM | PAGE/LINE REFERENCE | | SOURCE | PROPOSED LANGUAGE | STAFF POSITION/COMMENTS |
|------|---------------------|--|--------|--|---|
| 92. | | | CAA | <p>Comment:</p> <p>The CAA published Position Paper 99-002 on April 7, 1999 in response to the December 10, 1998 edition of AH 504. The revisions to AH 504 currently proposed by SBE staff still do not remedy prior CAA concerns. Therefore, the CAA also requests that the SBE incorporate language adopted in CAA Position Paper 99-002 as part of the currently proposed revisions to AH 504.</p> | <p>Position Paper 99-002 addresses the treatment of fixtures when measuring declines in value and the treatment of Food and Drug Administration (FDA) Validation Costs.</p> <p>Revision of these sections is not within the scope of this update.</p> |