Contra Costa County

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Chairman Jerome Horton
Fourth District
State Board of Equalization
450 N Street, MIC:72
Sacramento, CA 95814

Re: Property Tax Rule 474

Dear Chairman Horton:

I am the Assessor of Contra Costa County and have held this position for the past 20 years. During that time, I have become quite familiar with the valuation of refineries. I annually oversee the appraisal of four major petroleum refineries located in Contra Costa County and I have testified at hearings concerning their valuation.

I write in support of the readoption of Property Tax Rule 474. Rule 474 ensures fair and uniform taxation of petroleum refineries based on the concept of fair market value. As explained in the letter of Donald Flessner, a refinery, including land, buildings, tanks, machinery and equipment, is a collection of assets that functions together as a single unit to produce petroleum products. As also explained, such a property is valued and sold as a single integrated operating unit in any sale that is an open market non-exigency sale. Thus, an entire refinery generally is a single appraisal unit within the meaning of Revenue and Taxation Code section 51(d) and Rule 324(b). However, in those infrequent instances when land, improvements and fixtures does not transfer as an economic unit, Rule 474 permits assessors to separately value fixtures from land and improvements upon a proper showing.

Currently, several of the refineries in Contra Costa are valued under Proposition 8, as shown in the economic data that my office has provided to the Board to assist it in completing the economic impact assessment. Reenactment of Rule 474 is important to

advance accurate assessment of the refineries. When petroleum refinery property is valued as a single appraisal unit, land, improvements and fixtures are jointly assessed under the lower of the collective fair market value or factored base year value for these assets. If these assets were not valued as a single unit, fixtures could be valued at their fair market value, while land and improvements are valued at their factored base year value, to create artificially low valuations that are inconsistent with the marketplace. Valuation of petroleum refinery property as a single appraisal unit also results in more accurate assessments because fixture depreciation can be offset by appreciation in land and improvements, reflecting the reality that refineries are generally bought and sold as a single unit.

For these reasons, and because the readoption of Rule 474 will assist assessors in clarifying the appraisal unit to be used when valuing petroleum refining properties for declines in value, I respectfully request that the Board reenact Rule 474.

Thank you for your consideration of this request.

Respectfully submitted,

Gus Kramer
Contra Costa County Assessor