Senate Bill 1394 (Hall)
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Program: Property Tax
Sponsor: Author

Michele Pielsticker (Chief) 916.322.2376
Rose Marie Kinnee (Analyst) 916.445.6777
Mark Durham (Revenue) 916.445.0840

Revenue and Taxation Code Sections 11206, 11292, 11293, 11293.5, 11294, and 11295
Effective immediately but applies to assessments beginning fiscal year 2017-18

Summary: Changes the method of measuring railcar presence in California from car days to mileage for purposes of imposing the Private Railroad Car Tax.

Purpose: To establish a simplified procedure for assessing privately owned railroad cars (PRRCs) that is appropriate and fair, allocates value among states in a consistent manner, and reduces the administrative burden on both taxpayers and the Board of Equalization (BOE).

Fiscal Impact Summary: Revenue loss of $1.5 million in fiscal year 2017-18 and $2.2 million for each fiscal year thereafter.

Existing Law: California law imposes a property tax on privately owned railroad cars (PRRCs) operating on the state's railroads.[1] The law specifies the methodology to value PRRCs.

Valuation. The BOE determines value based on acquisition cost less depreciation for each railroad car class in the owner's fleet. The law allows additional deductions in the form of depreciation for cars purchased used and newly installed improvements (i.e., betterments) to existing cars.

Apportionment. Because PRRCs are involved in interstate travel, the value must be apportioned among the states. PRRCs are taxed on a pro rata basis consistent with actual presence in California. The law requires presence to be measured by the number of "car-days" each car class spent in the state during the preceding calendar year.

Proposed Law: This bill changes the way physical presence is measured from the number of days each car class spends in California to the pro rata number of miles the owner's PRRC fleet traveled in California. For the fiscal year 2017-18 only, the bill requires the BOE to measure California presence for the 2016 calendar year on both mileage and car days equally weighted. For the fiscal year 2018-17 and each fiscal year thereafter, presence will be measured based on mileage only.

Car Classes. Switching to a mileage basis eliminates the need to distinguish cars by class, since railroads do not report miles traveled by car class. As such, this bill deletes RTC Section 11206 related to PRRCs classes and the deletes the phrase "by class" in RTC Section 11292.

Additions and Betterments. This bill adds the phrase "including additions and betterments" to clearly state that the taxable value of PRRCs is based not just on the original acquisition cost, but also includes subsequent improvements, additions, and replacements.

In General: The PRRC tax is in lieu of all other state and local ad valorem property taxes on PRRCs. Unlike revenue from other property taxes, the revenue from PRRC taxes is state general fund revenue.

Generally, companies that own PRRCs haul their own products or lease their cars to shippers. The PRRC tax does not apply to railroad companies.

Background: The car-day count system measures the presence of PRRCs within California. Each month, five railroad car companies report border crossing data (movements in and out of California) to the BOE. The BOE's computer program processes this data and determines the number of days each car

[1] Part 6 of Division 2 of the Revenue and Taxation Code (commencing with Section 11201).

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE's formal position.

was physically present in California during the calendar year immediately preceding each lien date. The results are converted to an equivalent number of cars, for a specific car class based on the American Association of Railroads Alpha designation, as explained below.

Applying the car-day method, the car's value is multiplied by the number of days per year that each car was present in California. For example, if the aggregate number of days a company's tank cars were physically present in California was 730 days, the equivalent number of tank cars would be 2 (730 days / 365 days). If the tank car's value is $50,000, calculated using the statutorily required method, then this value is multiplied by 2 to arrive at a $100,000 taxable value for this class of PRRCs ($50,000 x 2).[2] The company's liability is the tax imposed on an assessed value of $100,000.

Previous Legislation. In 2015, the BOE sponsored Senate Bill 357 (Hall) which also proposed changing to a mileage based system. SB 357 additionally included valuation changes to (1) eliminate additional depreciation given to cars purchased used and (2) eliminate additional depreciation given to new additions and betterments to existing cars. Depreciation would have continued to be calculated for all cars based on a 22- or 25-year life. Those valuation changes reduced SB 357's overall revenue impact and would have simplified tax reporting and administration. The Senate Appropriations Committee held that bill.

In 2014, Assembly Bill 2262 (Frazier) contained a nearly identical proposal to SB 357. The Senate Appropriations Committee held AB 2262.

Commentary:

1. **Conformity.** A mileage based system conforms to the way other states that impose a PRRC tax measure presence. In addition, railroad companies use mileage to bill PRRC owners for traveling on their systems. Thus, mileage data is readily available since it's already captured for other states' tax systems and railroad billing.

2. **Phase in.** This bill phases in the transition to mileage. For the fiscal year 2017-18, the BOE will assess California's share of the private railroad car value using both methods: car days and mileage. The tax imposed will be based upon the average amount of tax liability determined under both systems (i.e., equally weighted).

3. **Reduces Taxpayer Compliance Burden**. Switching to mileage reduces the burden on PRRC owners and railroads to comply with California's unique car-day system. Using the same mileage system as other states also reduces compliance costs for PRRC owners and railroads.

4. **Increases Efficiency and Reduces Administrative Complexity.** Measuring presence with a mileage based system is less complex and less costly to administer. Making the tax easier to administer would allow the BOE to redirect senior staff to other activities and allow junior staff to assume these duties.

5. **Avoids Need to Replace Aged Software Program.** The car-day count software program the BOE uses to measure presence is near the end of its useful life. Switching to a mileage-based system avoids the cost to replace the software, which BOE staff estimates would amount to at least $500,000. The current program uses obsolete programming language that is no longer supported and thus increasingly difficult to maintain.

6. **Improves Accuracy.** The mileage data is more accurate than car days because the BOE must rely on second and third party data (from Rail Inc.) for verification of car days reported by railroads (these sources provide information on movements into and out of California). Under the mileage based system, the BOE could obtain mileage data directly from the source (private car owners). Car day

[2] In addition, to comply with the Federal Railroad Revitalization and Regulatory Reform Act (the 4-R Act), the BOE must assess rail transportation property, including PRRCs, at a percentage of full value. For 2014-15, the percentage was 76.38% of market value.

counts are less accurate.

7. **More Predictable and Stable Revenue Stream.** A review of mileage data from 2010-14 indicated that moving to mileage-based assessments would result in a more predictable and more stable PRRC revenue stream than car-day-based assessments.

Administrative Costs: The BOE would save some costs by (1) canceling an annual $13,000 car registration subscription and (2) avoiding the estimated $500,000 minimum cost to replace the aging car-day counting software.

Revenue Impact:

Background, Methodology, and Assumptions. The state retains the revenue from the PRRC tax. In 2015, the tax revenue from 221 PRRC companies was about $9,876,000.[3] Annual tax revenues vary with the level of new car investments and California economic activity. For 2009 to 2015, total assessed values and tax revenues are as follows:

Year	Total Full Value	Total Assessed Value	Tax Rate	Amount of Tax
2009	$922,188,463	$535,934,266	1.097%	$5,879,199
2010	$865,148,570	$564,386,221	1.102%	$6,219,536
2011	$901,214,873	$732,007,910	1.107%	$8,103,328
2012	$879,655,573	$720,268,858	1.108%	$7,980,579
2013	$932,432,014	$753,819,189	1.108%	$8,352,317
2014	$1,055,786,235	$806,687,203	1.106%	$8,921,960
2015	$1,167,604,358	$865,576,000	1.141%	$9,876,221

Mileage-based assessments could result in increased or decreased tax liability for individual companies depending on their specific business operation. Thus, the changes don't impact all companies uniformly. Most companies would have reduced taxes from the proposed changes, but some would see taxes increase.

The revenue impact of switching to a mileage based system is difficult to predict with certainty because railcar activity in California and elsewhere depends upon economic conditions, investment choices, labor relations, and political practicalities. In addition, the revenue impact depends on two variables that change each year: the tax rate and the 4R Act Assessment ratio.

BOE staff collected mileage data for years 2010-2015 from large companies that comprise 59% to 65% of total taxes imposed for those years. Staff then applied the presence calculations for those companies and compared taxes actually imposed for those periods to taxes that would be imposed under this bill. The results vary. For the 2010 and 2012 assessment years, taxes would have been higher, but over the entire period total taxes were lower.

Revenue Summary. Comparing mileage and car-day data in recent years, staff estimates that transitioning to a mileage based system switch would result in a revenue loss of $1.5 million in fiscal year 2017-18 and $2.1 million annually thereafter.

Qualifying remarks. This loss would be offset in the first year by canceling an annual $13,000 car registration subscription and avoiding the one-time $500,000 cost to replace the aging car-day counting software. BOE estimates also conclude that moving to mileage-based assessments will result in a more

[3] 2015 Private Railroad Car Assessment Value Recommendations
Private Railroad Car Tax Historical Data 1938 to present (BOE Statistical Table 17B)
Private Railroad Companies (BOE Statistical Table 17A)

predictable and more stable revenue stream.

This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.