

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 03/13)

Fiscal Year 2014-2015	BCP No. 5	Org. Code 0860	Department State Board of Equalization	Priority No. 5
Program County-Assessed Properties Division			Element	Component N/A

Proposal Title
 VALUATION FACTORS STUDIES

Proposal Summary
 The Board of Equalization (BOE) requests \$367,000 (General Fund (GF)) and 2.0 permanent positions in Fiscal Year (FY) 2014-15 and \$305,000 (GF) and 2.0 positions ongoing for the BOE County-Assessed Properties Division (CAPD) to conduct studies to update the valuation factors for non-production computer equipment, semiconductor manufacturing equipment, biopharmaceutical industry equipment and fixtures previously adopted by the BOE. Pursuant to Section 401.20 of the Revenue and Taxation Code, commencing with lien date January 1, 2015, values determined by use of these factors will no longer be rebuttably presumed the full cash value of that property unless the BOE conducts a review.

If the BOE does not receive the requested positions, CAPD cannot conduct valuation factor studies, which will result in a lack of uniformity in assessment. It will also result in an increase in property tax appeals which are costly to industry and to local county assessors and are resolved on a case-by-case basis compared to valuation factors (developed from valuation factors studies) for use by all county assessors.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance.

FSR SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Budget Officer	Date	Chief, Financial Management Division	Date
Deputy Director, Administration	Date	Executive Director	Date

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Technology Agency

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA Date submitted to the Legislature

STATE BOARD OF EQUALIZATION
County-Assessed Properties Program
Valuation Factors Studies for County-Assessed Properties
Fiscal Year 2014-2015

A. Proposal Summary

The Board of Equalization (BOE) requests \$367,000 (General Fund (GF)) and 2.0 permanent positions in Fiscal Year (FY) 2014-15 and \$305,000 (GF) and 2.0 positions ongoing for the BOE County-Assessed Properties Division (CAPD) to conduct studies to update the valuation factors for non-production computer equipment, semiconductor manufacturing equipment, biopharmaceutical industry equipment and fixtures previously adopted by the BOE. Pursuant to Section 401.20 of the Revenue and Taxation Code, commencing with lien date January 1, 2015, values determined by use of these factors will no longer be rebuttably presumed the full cash value of that property unless the BOE conducts a review.

The presumption provided in Section 401.20 of the Revenue and Taxation Code expires 6 years after the most recent study leading to the development of new factors in order to ensure future assessments are not based on dated studies. Therefore, the rebuttable presumption provision in Section 401.20 will no longer apply after January 1, 2015 unless the BOE conducts a review. Additionally, CAPD has received requests from industry representatives to conduct valuation factors studies for property of other industries. It is essential that the BOE respond to changing environments and be proactive in conducting valuation studies to arrive at accurate factors to ensure equitable treatment and fairness to taxpayers in the assessment of personal property and fixtures and to promote assessment uniformity.

This proposal addresses the unstaffed area within the CAPD. Currently, positions needed to perform valuation studies are not available due to an increased workload in other mandated areas. If the BOE is going to continue engaging in valuation factors studies, CAPD needs to be adequately staffed. In the past few years, resources were redirected from other areas to conduct valuation studies because permanent funding was not received. But this has hampered CAPD's ability to perform its mandated duties in other areas. Without the approval of this Budget Change Proposal (BCP), the BOE will not be able to effectively or efficiently perform the demands of the mandated workload and perform the valuation factors studies.

If the BOE does not receive the requested positions, CAPD cannot conduct valuation factor studies, which will result in a lack of uniformity in assessment. It will also result in an increase in property tax appeals which are costly to industry and to local county assessors and are resolved on a case-by-case basis compared to valuation factors (developed from valuation factors studies) for use by all county assessors.

B. Background/History

The BOE has taken steps to address issues involving the valuation of personal property and fixtures and has worked closely with county assessors and the business community to resolve various valuation issues in order to arrive at industry-specific valuation factors. For example, in 1994 the BOE participated in a market-based industry study that resulted in the BOE adopting valuation factors for semiconductor manufacturing equipment. During 1995, the BOE developed three tables of valuation factors for use in valuing personal computers, mid-range computers, and mainframe computers that were based on analysis of used computer equipment sales in the open market. Additionally, in 1999, the BOE adopted valuation factors for use in valuing fixtures and personal property of the biopharmaceutical industry after conducting an analysis of information provided by the industry.

In FY 1999-2000, the Budget Act appropriated \$250,000 to the BOE for assessment studies that were required to obtain the data to update replacement cost factors and useful life tables used in the valuation of equipment and other business property. As a result, the BOE developed and released a Request for Proposal seeking the assistance of an outside consultant to perform a preliminary business property assessment study of 14 industries. Included in the industries to be studied were biopharmaceutical research and manufacturing, computer manufacturing and assembly, semiconductor, and electronic manufacturing and assembly. Unfortunately, no bids were received and the \$250,000 was reverted back to the General Fund.

BCP No. 6 was approved in 2006 that provided 2.0 positions on a 2-year limited term basis for FY 2006-07 and FY 2007-08 to create and participate on teams to conduct studies in the development of valuation factors for three classes of property: biopharmaceutical industrial equipment and fixtures, non-production computer equipment, and semiconductor manufacturing equipment. Assembly Bill 2182 (statutes of 2006, Ch. 417) was a companion measure to the proposed budget funding to conduct valuation factor studies for the above mentioned three classes of property. This bill added Section 401.20 to the Revenue and Taxation Code to provide that values determined by use of these factors are rebuttably presumed to be the full cash value of that property. Under the rebuttable presumption set forth in Section 401.20, either the assessor or the taxpayer have the right to present evidence supporting values that are different from those based on the published valuation factors in order to attempt to overcome the presumption. If either the assessor or the taxpayer presents evidence supporting values different than those based on the published factors, then that party would bear the burden of proof.

Each valuation study team consisted of a Principal Property Appraiser and Senior Specialist Property Auditor Appraiser from the BOE, in addition to 2 industry representatives and 2 representatives from the assessors' offices. The studies were completed and the valuation factors were adopted by the Board and included in Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

On August 14, 2007, the Board approved a BCP, *Maximize Fairness and Education in County Assessment Standards Program*, which in part requested funding to continue the Valuation Factors Studies Unit. The proposal was to make permanent 1.0 Principal Property Appraiser position and 1.0 Senior Specialist Property Auditor Appraiser position, scheduled to expire on June 30, 2008, to conduct studies in development of valuation factors for specific industry types undergoing technological innovation for the purpose of arriving at accurate estimates of market value for property taxation. The proposal was denied by the Department of Finance (DOF).

Although funding was denied by the DOF to continue the studies, the Board directed staff to reallocate existing resources to conduct future valuation studies and to develop procedures for these studies, during the Board's June 24, 2008 meeting. Additionally, the BOE staff was directed to present the procedures for these studies to the Property Tax Committee for discussion. On September 16, 2008, the Board adopted the staff recommended petition procedures and guidelines (Procedures); the Procedures were incorporated into the 2009 revision of AH 581 adopted by the Board on November 13, 2008. Following adoption of the procedures and guidelines, CAPD conducted valuation factors studies on document processing equipment and offset lithographic printing presses. Resources were reallocated to these studies from other CAPD units to the detriment of those other units. For example, a senior property auditor-appraiser redirected from CAPD's assessment services unit resulted with delays in personal property assessment and audit guidance provided to assessors and other interested parties including updates to Assessors' Handbook sections. Additionally, the redirection caused delays in assessment practices surveys.

C. State Level Considerations

The BOE collects taxes and fees that provide approximately 34 percent of the annual revenue for state government and essential funding for counties, cities, and special districts. In fiscal year 2010-11, the BOE administered taxes and fees produced \$53.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs. More than one million businesses are registered with the agency.

This proposal is consistent with the BOE's Strategic Plan. Specifically, this proposal conforms to: Part II, Goals and Objectives, Objective 4.1, Improve Partnerships, the BOE will continue working at local, state, and national levels to ensure equitable treatment for all taxpayers and property owners.

D. Justification

The BOE is mandated by Government Code Sections 15606 and 15608 to issue instructions to assessors to promote uniformity in property assessment throughout the state. The BOE is mandated by Section 401.5 of the Revenue and Taxation Code to promulgate guidance for county assessors to follow in valuing locally assessed property.

In order to ensure that the presumption of correctness is not extended to assessments based upon dated studies in the future, the presumption provided in Section 401.20 expires 6 years after the most recent study leading to the development of new factors. Therefore, commencing with lien date January 1, 2015 the rebuttable presumption provision in Section 401.20 will no longer apply unless the BOE conducts a review of the valuation factors for non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industrial equipment and fixtures.

Conducting studies to derive factors for specific types of industry personal property and fixtures is integral to fulfilling the BOE's mandate to promulgate such guidance for county assessors to follow in valuing locally assessed property. If the BOE does not receive the requested positions, CAPD cannot conduct valuation factor studies, which will result in a lack of uniformity in assessment. It will also result in an increase in property tax appeals which are costly to industry and to local county assessors and are resolved on a case-by-case basis compared to valuation factors (developed from valuation factors studies) for use by all county assessors. For example, we have an industry that recently requested that CAPD conduct a valuation factor study. This industry currently has appeals filed in 57 counties. Each appeal results with a cost to the county and to industry. Historical practice has demonstrated that appeals are not filed on property of industries with valuation factors that resulted from valuation factors studies. If CAPD is adequately staffed, the BOE will be able to conduct valuation factor studies on these types of industries, which will result with less cost to counties and industry.

E. Outcomes and Accountability

The outcomes will be measured by the number of studies conducted during each fiscal year, as well as, by new factors published in AH 581. There are currently seven outstanding valuation factors studies. It is estimated that 1,300 hours per position are needed per study. The valuation factors studies will begin in 2014-15, with staff conducting an average of two studies per year. The completed studies will be published in the year following commencement. Although there are currently seven outstanding valuation factors studies, CAPD anticipates receiving additional requests to conduct valuation factors studies in the future. AH 581 includes petition procedures for interested parties to use when requesting that the BOE conduct a valuation factors study.

Projected Outcomes

Workload Measure	2014-15	2015-16	2016-17
Commence and conduct Valuation Factor Studies	3	2	2
Publish Valuation Factors Studies in AH 581	N/A	3	2

F. Analysis of All Feasible Alternatives

Alternative 1 – Requests \$367,000 in FY 2014-15 and \$305,000 ongoing for 2.0 permanent positions to create and participate on teams that will conduct studies to update the valuation factors for non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures previously adopted by the Board. The positions will also conduct valuation factors studies for other industries.

Under this alternative, the BOE will contact county assessors, industry representatives, and other interested parties to form teams that will analyze data and update the non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures. The BOE will also contact county assessors, industry representatives, and other interested parties to form teams that will analyze data and create valuation factors for other industries as needed. CAPD has received requests from industry to conduct valuation factors studies of satellite set-top boxes, food processing equipment, wind turbines, and high-speed production printers. CAPD anticipates receiving requests to conduct other valuation factors studies from industry in the future.

Pros:

- Allows reviews on non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures previously adopted by the Board, thus extending the rebuttable presumption provided in Section 401.20 past the lien date of January 1, 2015.
- Assists in the avoidance of costly and time-consuming appeals and litigation for local government and taxpayers.
- Allows a review of current data to determine if the information contained in AH 581 results in accurate estimates of value and provides the BOE with a reliable foundation for value indicators for specific types of equipment.
- Provides industry and other interested parties an opportunity to provide input and expertise in the development of updated valuation factors.
- Provides county assessors and industry representatives with the foundation necessary to accurately value property.
- Fosters assessments made via more accurate estimates of fair market value; thus, lessening public aversion to the use of property tax as a vehicle to fund government services.
- Ensures equitable treatment and fairness to taxpayers in the assessment of personal property and fixtures and promotes assessment uniformity.

Cons:

- Requires a General Fund budget augmentation.
- Necessitates participation by industry and county assessors to provide relevant data for studies to be viable.

Alternative 2 - Obtain funding for 2.0 positions on a three-year limited term basis to create and participate on teams that will conduct studies to update the valuation factors for non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures previously adopted by the Board. The positions will also conduct a few other valuation factors studies for other industries.

Pros:

- Allows reviews on non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures previously adopted by the Board, thus extending the rebuttable presumption provided in Section 401.20 past the lien date of January 1, 2015.
- Assists in the avoidance of costly and time-consuming appeals and litigation for local government and taxpayers in reference to property of industries reviewed during the three-year period.
- Allows a review of current data to determine if the information contained in AH 581 results in accurate estimates of value and provides the BOE with a reliable foundation for value indicators for specific types of equipment.
- Provides industry and other interested parties an opportunity to provide input and expertise in the development of updated valuation factors.

- Provides county assessors and industry representatives with the foundation necessary to accurately value property of the industries reviewed during the three-year period.
- Fosters assessments made via more accurate estimates of fair market value; thus, lessening public aversion to the use of property tax as a vehicle to fund government services during the three year period.
- Ensures equitable treatment and fairness to taxpayers in the assessment of personal property and fixtures and promotes assessment uniformity during the three-year period.

Cons:

- Requires a General Fund budget augmentation.
- Necessitates participation by industry and county assessors to provide relevant data for studies to be viable.
- Limits review of property to certain industries. Based on historical practice, the three year limited term positions would be able to complete reviews on non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures previously adopted by the Board, and 2 additional valuation factors studies.
- Prevents the BOE to continue to respond to changing environments and be proactive in conducting valuation studies to arrive at accurate factors to ensure equitable treatment and fairness to taxpayers in the assessment of personal property and fixtures and to promote assessment uniformity past the three year period.

Alternative 3 - Continue to use the valuation factors for non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures previously adopted by the Board and do not conduct other valuation studies.

Alternative 3 requests no funding for positions or equipment.

Pros:

- Does not require a General Fund Budget Augmentation.

Cons:

- Increases the number of property tax appeals which are costly to industry and to local county assessors and are resolved on a case-by-case basis.
- Ignores the Valuation Factors Studies workload needs. Consequently, the BOE cannot conduct reviews for non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industrial equipment and fixtures.
- Allows the expiration of the rebuttable presumption provision in Section 401.20.
- Does not allow the BOE to respond to changing environments and be proactive in conducting valuations studies to arrive at accurate factors to ensure equitable treatment and fairness to taxpayers in the assessment of personal property and fixtures and to promote assessment uniformity.

G. Implementation Plan

The proposal will be implemented on July 1, 2014, with the hiring of 2.0 additional staff. The BOE will create and participate on teams to conduct studies and update the valuation factors for non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures that were previously adopted by the BOE. Commencing with lien date January 1, 2015, the rebuttable presumption provision in Section 401.20 will no longer apply unless the BOE conducts a review.

The BOE will conduct studies in the development of valuation factors used to value specific industry types that are experiencing rapid technological innovation. Staff will evaluate what types of industries fall in this category based on information received from assessors and industry; then determine a project schedule. Staff will contact and interact with county assessors, industry representatives, and other interested parties in an effort to analyze data and create valuation factors for specific types of commercial or industrial equipment.

July 2014 – June 2015	July 2015 – June 2016	July 2016 – June 2017
<ul style="list-style-type: none"> • Hire staff to create and participate on teams that will conduct studies to update the valuation factors for non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures (three classes of property) previously adopted by the BOE. • Obtain and analyze data of the three classes of property. • Participate in discussions with assessors and industry to determine other types of equipment to study (may include satellite set-top boxes, food processing equipment, wind turbines, and/or high-speed production printers). 	<ul style="list-style-type: none"> • Complete studies to update the three classes of property previously adopted by the BOE. • Make recommendations to our Board for adoption of updated valuation factors for the three classes of property. • Obtain and analyze data for other studies (may include satellite set-top boxes, food processing equipment, wind turbines, and/or high-speed production printers) to develop valuation factors. 	<ul style="list-style-type: none"> • Complete studies to develop valuation factors for other studies (may include satellite set-top boxes, food processing equipment, wind turbines, and/or high-speed production printers). • Make recommendations to the Board for adoption. • Review petitions from industry requesting valuation studies for other industries. • Participate in discussions with assessors and industry to determine type of equipment to study. • Obtain and analyze data for other studies.

H. Supplemental Information (Check box(es) below and provide additional descriptions.)

- None
 Facility/Capital Costs
 Equipment
 Contracts
 Other _____

I. Recommendation

Alternative 1 is recommended.

Approval of these positions will allow the BOE to effectively and efficiently perform the mandated workload demands as defined above. Approval will also facilitate the objective of validating or updating information contained in AH Section 581 relative to the valuation factors for specific types of equipment experiencing technological innovation.

Workload Detail for Valuation Factors Studies

PROPERTY AND SPECIAL TAXES DEPARTMENT (PSTD)

The following chart summarizes the workload and hours for each study for the Business Taxes Administrator II (BTA II) and Business Taxes Specialist II (BTS II).

Workload Per Study	BTA II	BTS II
Develop methodology for project	260	40
Meet with industry representatives and county assessors	140	60
Collect data for project—audit company's books	40	540
Contact other states and other state agencies for comparable studies or data; identify other sources	60	0
Develop valuation factors—analyze data collected	40	600
Oversee interested parties process—provide draft materials and chair meetings	240	20
Move project through administrative process—oversee process to facilitate adoption by the BOE	260	20
Updates to existing studies	260	20
Total Hours Needed per Study	1,300	1,300
Current Number of Potential Studies <i>_a/</i>	7	7
Total Hours Needed to Complete Potential Studies	9,100	9,100
Total Positions Required <i>_b/</i>	1.0	1.0
Hours per Position	1,800	1,800
Number of years to Complete Current Potential Workload <i>_c/</i>	5.0	5.0

_a/ Based on current potential workload (non-production computer equipment, semiconductor manufacturing equipment, and biopharmaceutical industry equipment and fixtures, satellite set-top boxes, food processing equipment, wind turbines, and high-speed production printer) there are seven outstanding valuation factors studies.

_b/ Requesting 1 BTA II position and 1 BTS II position to conduct valuation factors studies on an ongoing basis to address current and future requests from industry to conduct these studies.

_c/ Based on 1,800 hours per position. Estimated work time based on experience with previous studies. Rounded to the nearest full position. Current potential workload would take staff approximately 5 years to complete.

