



STATE BOARD OF EQUALIZATION

1020 N STREET, SACRAMENTO, CALIFORNIA
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916/445-6479

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DOUGLAS D. BELL
Executive Secretary

May 22, 1979

79/91

TO COUNTY ASSESSORS, COUNTY COUNSELS, COUNTY ASSESSMENT
APPEALS BOARDS, AND OTHER INTERESTED PARTIES:

PROPERTY TAX RULE 468

The State Board of Equalization recently amended on an emergency basis Property Tax Rule 468, effective April 2, 1979, to provide guidelines for the assessment of oil and gas-producing properties pursuant to Article XIII A of the Constitution.

Enclosed is a notice of public hearing of Rule 468 to be heard in Room 102, 1020 N Street, Sacramento, on June 26, 1979, at 2:00 p.m.

Written comments with regard to the enclosed notice are welcome and should be directed to me. If you wish to present testimony pertaining to the rule at the hearing, please notify me by mail at the above address or by telephone, 916/445-6479, by June 13 so that an orderly agenda can be prepared.

Sincerely,


Janice Masterton
Calendar Clerk

JM/k
Enclosure

NOTICE OF ADOPTION OF EMERGENCY REGULATIONS
BY THE STATE BOARD OF EQUALIZATION

Notice is hereby given that the State Board of Equalization, pursuant to the authority vested in Section 11409 of the Government Code (Administrative Procedure Act), and to implement, interpret or make specific sections of Article XIII A of the California Constitution and Sections 110, 110.1, 110.5 and 110.6 of the Revenue and Taxation Code, has adopted and filed as an emergency on April 2, 1979, regulations in Title 18 of the California Administrative Code as follows:

(1) Amend Regulation 468(a) and (b) to read:

468. Oil- and Gas-Producing Properties

(a) The right to remove petroleum, natural gas, minerals referred to in Section 469 and other minerals from the earth is a taxable real property interest. Increases in recoverable amounts of minerals caused by changed physical or economic conditions constitute additions to such a property interest. Reduction in recoverable amounts of minerals caused by production or changes in the expectation of future production capabilities constitute a reduction in the interest. Whether or not physical changes to the system employed in recovering such minerals qualify as new construction shall be determined by reference to Section 463(a).

(b) The market value of a mineral property interest is determined by estimating the value of the volumes of mineral reserves which geological and engineering information indicate

to be recoverable in the future, taking into account reasonably projected physical and economic operating conditions. Present and projected economic conditions shall be determined by reference to all economic factors considered by knowledgeable and informed persons engaged in the operation and buying or selling of such properties.

(2) Amend Regulation 468 to add subsection (c) to read:

(c) The unique nature of mineral property interests requires the application of specialized appraisal techniques designed to satisfy the requirements of Article XIII, Section 1, and Article XIII A, Section 2, of the California Constitution. To this end, the valuation of such properties and other real property associated therewith shall be pursuant to the following principles and procedures:

(1) A base year value (market value) of the property shall be estimated as of lien date 1975 or as of the date a change in ownership occurs subsequent to lien date 1975. Newly constructed improvements and additions in reserves shall be valued as of the lien date of the year for which the roll is being prepared. Improvements removed from the site shall be deducted from taxable value. Base year values shall be determined using factual market data such as prices and expenses ordinarily considered by knowledgeable and informed persons engaged in the operation, buying and selling of

oil, gas and other mineral-producing properties and the production therefrom. Once determined, a base year value may be increased no more than two percent per year.

- (2) Base year reserve values must be adjusted annually for the value of depleted reserves caused by production or changes in the expectation of future production.
- (3) Additions to reserves established in a given year by discovery, construction of improvements, or changes in economic conditions shall be quantified and appraised at market value.
- (4) The current year's lien date taxable value of mineral reserves shall be calculated as follows:
 - (A) The total unit market value and the volume of reserves using current market data shall be estimated.
 - (B) The current value of taxable reserves is determined by segregating the value of wells, casings, and parts thereof, land (other than mineral rights) and improvements from the property unit value by an allocation based on the value of such properties.
 - (C) The volume of new reserves shall be determined by subtracting the prior year's reserves, less depletions, from the estimated current total reserves.

- (D) The value of removed reserves shall be calculated by multiplying the volume of the reserves removed in the prior year by the weighted average value, for reserves only, per unit of minerals for all prior base years. The prior year's taxable value of the reserves remaining from prior years shall be found by subtracting the value of removed reserves from the prior year's taxable value.
- (E) The new reserves are valued by multiplying the new volume by the current market value per unit of the total reserves.
- (F) The current full cash value base, for reserves only, is the sum of the value of the prior year's reserves, net of depletions as calculated in (D) above, factored by the appropriate percentage change in the Consumer Price Index (CPI) added to the value of the new reserves, as calculated in (E) above.
- (5) Valuation of land (other than mineral reserves) and improvements.
- (A) A base year value (market value) of land (including wells, casings and parts thereof) and improvements shall be estimated as of lien date 1975, the date of new construction

after 1975, or the date a change of ownership occurs subsequent to lien date 1975.

(B) The value of land (wells, casings and parts thereof) and improvements shall remain at their factored base year value except as provided in (6) below.

(6) Value declines shall be recognized when the market value of the appraisal unit, i.e., land, improvements and reserves, is less than the full cash value base of the same unit.

Notice is also given that any person interested may present statements or arguments relevant to the emergency action taken, orally or in writing, at a hearing in Room 102, 1020 N Street, Consumer Affairs Building, Sacramento, CA 95814, at 2:00 p.m., on June 26, 1979. At such time, or at any time thereafter, said State Board of Equalization may certify said emergency action as provided in Section 11422.1, Government Code, or without further notice may repeal or amend said emergency action.

Copies of the above emergency regulation may be obtain from the State Board of Equalization at the above address.

NOTE: The State Board of Equalization has determined that the appraisal of property for the purpose of determining basic property tax assessment values and whether or not declines in such values have occurred for the 1979 assessment year and

years subsequent thereto will involve costs to local government. Said costs which cannot be estimated are not state mandated costs that require reimbursement under Section 2231 of the Revenue and Taxation Code in that the additional duties imposed on local government have been expressly approved by a majority of the voters of this state at the June and November 1978 elections. These regulations do not involve any discernable cost to the state or federal government.

Dated: May 18, 1979

STATE BOARD OF EQUALIZATION



DOUGLAS D. BELL
Executive Secretary

Rule No. 467. (Cal. Adm. Code) TAXABLE POSSESSORY INTERESTS.

Reference: Article XIII A, Sections 1 and 2, California Constitution.

The assessor shall ascertain the full value of all taxable possessory interests as defined in Section 21 of this code and created prior to March 1, 1975, as of that date. Possessory interests newly created subsequent to March 1, 1975, shall be appraised at their full value as of the date of creation.

Possessory interests subleased or assigned for a term in excess of ten years shall be appraised as of the date the sublessee or assignee obtains the right to occupancy or use of the property.

New improvements erected for the purpose of exercising the rights granted by the possessory interest held in land shall be valued as of the date of the completion of construction. When improvements owned by the holder of the possessory interests are in the course of construction for a period that covers more than one lien date, they shall be appraised in accordance with Section 463.

If the current full value of any possessory interest declines for any reason to a value that is less than its full cash value base the current assessment shall reflect that decline.

History: Adopted June 29, 1978, effective July 3, 1978.

Amended September 26, 1978, effective October 2, 1978.

Amended January 25, 1979, effective March 1, 1979. Applicable to assessments for 1979 and years thereafter.

Rule No. 468. (Cal. Adm. Code) OIL AND GAS PRODUCING PROPERTIES.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

Petroleum, natural gas, and other fluid hydrocarbons are natural substances of the earth, and are classified as land. The volume of these hydrocarbons that will be removed from the land consists of the amount that is classified at a given time as "proved reserves." Proved reserves are the volumes of crude oil and natural gas which geological and engineering information indicate, beyond reasonable doubt, to be recoverable in the future from oil and gas reservoirs under existing economic and operating conditions. The development of proved reserves by drilling and completing wells and by installing production systems constitutes an addition to real property and the production of oil and gas constitutes a removal of real property.

~~(a) The full value of an oil or gas producing property is its base year full value adjusted for depletion of reserves. The value attributable to such depletion shall be determined annually employing the economic data that applied in the base year.~~

~~(b) The base year of newly developed reserves shall be the date of completion of the well or the installation of the production system.~~

History: Adopted June 29, 1978, effective July 3, 1978.

Rule No. 469. (Cal. Adm. Code) MINES AND QUARRIES.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

Organic and inorganic minerals and rocks are natural substances of the earth, and are classified as land. The volume of minerals or rocks of acceptable quality that may be removed from the land under existing economic and operating conditions are classified as reserves. The creation of reserves by exploration or by development constitutes an addition to real property and the production of the minerals or rocks from a reserve constitutes a removal of real property.

(a) The full value of a mine or quarry is its base year full value adjusted for the depletion of reserves. The value of the depleted reserves shall be determined annually employing the economic data that applied to the establishment of the reserves in the base year.

(b) The base year of new reserves shall be the year in which either development or mining occurs.

History: Adopted June 29, 1978, effective July 3, 1978.

Amended September 26, 1978, effective October 2, 1978.

Rule No. 470. (Cal. Adm. Code) OPEN-SPACE.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

All open-space lands "enforceably restricted" within the meaning of Sections 421 and 422 of the Revenue and Taxation Code shall have a base year restricted value determined by one of the following methods:

- (a) If enforceably restricted prior to the 1975 lien date with no subsequent change in ownership, the base year full value is the 1975 restricted value.
- (b) If an enforceable restriction is entered into subsequent to the 1975 lien date and no change in ownership has occurred, the base year full value is the value as if restricted in 1975.
- (c) If a change in ownership has occurred subsequent to the 1975 lien date, the base year full value shall be the restricted value redetermined as of the date of the most recent change in ownership, regardless of the effective date of the enforceable restriction.

All base year restricted values shall be modified annually by the inflation rate. Subsequent land improvements such as wells and land leveling, will be valued by capitalizing the income attributable to the land improvements using the capitalization rate prescribed in Section 423 (b) of the Revenue and Taxation Code.

When an open-space contract is cancelled, pursuant to the provisions of Sections 51280 through 51285 of the Government Code, the full cash value of the land shall be the appropriate base year full cash value as modified annually by the inflation rate.

When an open-space contract is not renewed it shall be phased out under the provisions of Section 426 of the Revenue and Taxation Code; "the full cash value of the land" shall be the base year full cash value modified annually by the inflation rate. The value of the land by capitalization of income shall be the base year restricted value modified annually by the inflation rate.

History: Adopted June 29, 1978, effective July 3, 1978.
Amended September 26, 1978, effective October 2, 1978.

Rule No. 471. (Cal. Adm. Code) TIMBERLAND.

Reference: Sections 110, 110.1, 110.5, 110.6, Revenue and Taxation Code.

Consistent with the intent of the provisions of Section 3 (j) of Article XIII of the California Constitution and the legislative interpretation thereof, the base year value for land which has been zoned as timberland pursuant to Sections 51110 or 51113 of the Government Code shall be ascertained from the 1977 statutory timberland site class value schedule and shall be modified annually by the inflation rate.

If, on or after March 1, 1979, timberland, or a portion thereof, is purchased, or otherwise undergoes a "change in ownership" as that phrase is defined in Section 462, its base year value shall be ascertained from the most recent board-adopted timberland site class value schedule to be adopted by the Board on or before January 1, 1980. Base year values for timberland which changes ownership on or after March 1, 1980, shall be ascertained from the board-adopted timberland site class value schedule in effect as of the date of change in ownership.

Values determined as provided in this section shall be enrolled on the lien date next succeeding the date when the timberland, or a portion thereof, changed ownership. Each year following enactment of a new base year value that value shall be modified by the annual inflation rate.

History: Adopted June 29, 1978, effective July 3, 1978
Amended September 26, 1978, effective October 2, 1978.

State of California

BOARD OF EQUALIZATION
PROPERTY TAX DEPARTMENT

PROPERTY TAX RULES AND REGULATIONS

Chapter 1. State Board of Equalization – Property Tax
Subchapter 10. Private Car Tax

Rule No. 1001. (Cal. Adm. Code) Annual Report

Reference: Section 11271, Revenue and Taxation Code

The report required by Section 11271 of the Revenue and Taxation Code of all persons whose private ~~cars~~ ^{railroad} are operated upon the railroads in this State at any time during a calendar year shall be filed on or before the thirtieth day of April of the following year.

History: Originally adopted December 13, 1945 as section 2300, subchapter 5, chapter 2, title 18, California Administrative Code; renumbered as above March 27, 1968, effective April 28, 1968.

Rule No. 1002. (Cal. Adm. Code) Petitions for Reassessment.

Reference: Sections 11338, 11339, 11353, Revenue and Taxation Code

The rules of procedure and evidence applicable to state assessees as specified in Subchapter 9 shall be appropriately applied to petitions for reassessment of private railroad cars.

History: Adopted February 8, 1979, effective March 25, 1979.