



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
Assessment Standards Division
450 N Street, MIC: 64, Sacramento, California
(P. O. Box 942879, Sacramento, CA 94279-0064)

Telephone: (916) 445-4982
FAX: (916) 323-8765

JOHAN KLEHS
First District, Hayward

DEAN F. ANDAL
Second District, Stockton

ERNEST J. DRONENBURG, JR.
Third District, San Diego

BRAD SHERMAN
Fourth District, Los Angeles

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Controller, Sacramento

BURTON W. OLIVER
Executive Director

June 7, 1995

TO COUNTY ASSESSORS AND INTERESTED PARTIES:

No. 95/37

COMPUTER VALUATION FACTOR ISSUES

In the course of determining the 1995 lien date valuation factors for computers, several questions, comments, and suggestions were made regarding methodology for developing the factors. In order to allow ample time for all parties to consider the issues and provide their suggestions for next year, Board staff has scheduled an informal meeting with county assessors and other interested parties at 1:00 P.M., Wednesday, June 21, 1995 to discuss the issues. The location of the meeting will be Room 122 of the Board's Headquarters building, 450 N Street, Sacramento, CA. The purpose of the meeting is to discuss the Business Property Statement for the 1996 lien date and to collect suggestions for developing the methodology by which data will be collected and analyzed. If you cannot attend the meeting but you have comments regarding problems, goals, or methodology as presented in this letter, please forward them to the Board's Assessment Standards Division by June 20, 1995.

We anticipate that on June 27, 1995 the Board's Property Tax Committee will discuss this letter and the results of the June 21 meeting. This meeting will also be held in Sacramento. The agenda and time will be announced later.

Following are brief discussions of issues regarding the property statement and computer percent good factors. These are presented by staff for purposes of discussion and do not represent policies of either the Board or the Property Taxes Department.

Proposed Categories of Computers for the 1996 Lien Date

The form of the 1996 Business Property Statement must be finalized by early July 1995 in order to meet the necessary deadline for printing and distributing the forms on a timely basis. As a result, it is necessary to determine reporting categories of computers prior to a completion of the study of the data. The 1996 Business Property Statement will be designed to accommodate these categories. Board staff has identified two different methods for categorizing computers for the 1996 lien date. The first is the method as presented in LTA 95/26 for the 1995 lien date. It separates computers by those which cost \$50,000 or less and those which cost more than \$50,000. Another method for reporting computers is:

- Mainframes Computers and related peripheral equipment whose CPU cost \$400,000 or greater.
- Minis Computers and related peripherals whose CPU cost \$25,000 to \$399,999.
- Micros Computers and related peripherals whose CPU cost less than \$24,999.

If you have comments on these two alternatives or other suggestions, please forward them to Board staff as soon as possible.

Problems In Determining Computer Percent Good Factors From Market Data

1. Does first year depreciation vary according to when, in the lifecycle of a computer model, the items are purchased new?

For example: The DCM model 100 was introduced in 1990 and cost \$1,000,000. In 1991 it sold new for \$900,000, and in 1992 it sold new for \$700,000. The model 100 sold used for \$800,000 in 1991, \$600,000 in 1992, and \$300,000 in 1993. The annual decline between new in 1990 and used in 1991 is 20%. The decline for new in 1991 and used in 1992 is 33%, and the decline for new in 1992 and used in 1993 is 57%.

2. If depreciation varies for the same computer based on when it is purchased, how should the different depreciation rates be weighted?
3. Does first year depreciation and subsequent depreciation vary significantly among different makes of computers?
4. If depreciation varies among makes, how should the different rates be weighted?
5. Do the rates of depreciation vary significantly among mainframe, mini, or personal computers?
6. What are the relevant sources of independent market data for mainframe, mini computers, workstations, and personal computers?

Objectives

In order to properly evaluate the various data we will attempt to:

1. Determine percentages sold by manufacturer for each of the following types of computers: PCs, mainframes, minis, and workstations.
2. Determine percentage of machines sold during initial year of introduction by type (mainframes, minis, and workstations).

3. Determine percentage sold during years subsequent to the introduction (mainframes, minis, and workstations).
4. Determine rates of depreciation for mainframes, minis, workstations, and PCs.

Board staff intends to begin collecting data soon. We hope to have a general consensus on the methodology by early July. If you have questions or comments, please forward them to the Assessment Standards Division as soon as possible.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Hagerty". The signature is written in a cursive style with a large, sweeping initial "J".

John W. Hagerty
Deputy Director
Property Taxes Department