Office of the Assessor
County of Santa Clara

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Lawrence E. Stone, Assessor

January 14, 2013

Hon. George Runner, Senator
Chair, State Board of Equalization Property Tax Committee
500 Capitol Mall, Ste. 1750
Sacramento, CA 95814 (via email to george.runner@boe.ca.gov)

Hon. Jerome Horton
Chair, State Board of Equalization
450 N Street, MIC 72
Sacramento, CA 95814 (via email to jerome.horton@boe.ca.gov)

Re: Board of Equalization Meeting January 15, 2013
Item P4.2, Update on Embedded Software Project

Dear Senator Runner and Chairman Horton:

In response to a proposal by the California Assessors' Association (CAA), the Board of Equalization (BOE) has asked the CAA to appoint two assessors to serve on a working group on embedded software. After extensive review, including consultation with an experienced Silicon Valley software engineer specializing in embedded systems, the CAA Ad-Hoc Committee on Embedded Software has concluded that the creation of a BOE working group would neither be productive nor a prudent use of public resources.

The creation of the BOE working group was proposed by the CAA after an extensive effort with industry and assessors to identify potential, non-legislative solutions to address the growing number of disputes involving the assessment of embedded software. When the CAA determined that it was impossible to obtain verifiable data from high-technology industry sources essential for creating a reliable study, CAA President Tom Bordonaro, in a letter to you dated September 20, 2012, suggested it might be a useful approach to create "guidelines" for evaluating what "standard of evidence would be required prior to a review for potential embedded software." Moreover, the CAA made it clear that since the problem was a technical valuation problem and not a policy or political problem, the CAA indicated that the composition of the working group should be limited solely to technical experts experienced in software development or the valuation of very complex high-tech equipment. As such, the CAA recommended the BOE

refrain from appointing elected assessors, industry attorneys, lobbyists, or finance managers from either side of the dispute. Limiting membership to only individuals with technical expertise and experience would lead to a more objective and reliable outcome.

The CAA Ad-Hoc Committee was recently informed that the BOE planned to proceed with appointing assessors and others from industry—the very individuals who have worked over several years to find a solution, without success. Moreover, we have learned that the proposed mission of the working group be dramatically expanded to "consider defining embedded software and include common examples, review methodologies used for state-assessed properties, and consider using them for county-assessed properties." This latest plan is significantly different from the originally stated purpose of creating "guidelines" necessary for the valuation of embedded software.

The CAA Ad-Hoc Committee has concluded that even the narrow mission initially proposed by the CAA, and populated with legitimate technical experts, would not be successful. Consequently, the CAA Ad-Hoc Committee will be recommending to the CAA Executive Committee at our meeting next week to respectfully decline to participate in the working group as proposed by the BOE Property Tax Committee.

Sincerely,

Lawrence E. Stone
Assessor

CC: Members of the State Board of Equalization
Jim Rooney, President, California Assessors' Association
Members of the CAA Ad-Hoc Committee on Embedded Software
Dean Kinnee, Property Tax Division, Board of Equalization
David Gau, Deputy Director, Board of Equalization

LES:dhl