



# CALIFORNIA ASSESSORS' ASSOCIATION

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September 20, 2012

Hon. Jerome Horton  
Chair, State Board of Equalization

Hon. George Runner, Senator  
Chair, State Board of Equalization Property Tax Committee

Dear George and Jerome,

Last October the Board of Equalization convened a meeting of Assessors and members of the Board of Equalization to discuss the growing challenge with the discovery and uniform assessment of embedded software. At the suggestion of the Board and Assessors, the California Assessors' Association (CAA) created an ad-hoc committee of the Association's Executive Committee to discuss options for addressing this issue.

Since last October, we have reached out to industry, and held several committee meetings to discuss a range of options. Those meetings have included Assessor representatives from Orange County, Los Angeles, San Diego, Santa Clara and the Board of Equalization. It was determined that due to the inability to receive verifiable data from industry essential for creating an independent study that further efforts to create a Board of Equalization study would not be productive. However the ad-hoc committee did conclude that guidelines for evaluating the increasing number of industry studies would be useful.

As a result, the CAA requests the Board of Equalization formally convene a working group to develop guidelines for the evidence that will be required prior to a review of any request for embedded software value reduction. These guidelines would be published by the BOE, similar in scope and authority to the BOE's guidance document to State assesseses on the methodology required to substantiate additional or extraordinary obsolescence ([http://www.boe.ca.gov/proptaxes/pdf/Obsolescence\\_Guidelines.pdf](http://www.boe.ca.gov/proptaxes/pdf/Obsolescence_Guidelines.pdf)) and the Letter to Assessors which provides guidance for substantiating additional obsolescence for personal property and fixtures (LTA 2010/030).

We recommend that the working group should be comprised of BOE staff, Assessors' staff knowledgeable about the issue, cost accountants from the Institute of Certified Cost and Management Accountants, software engineers, and members of academia with knowledge of software technology, and any other expertise that will assist the working group in formulating acceptable guidelines. These individuals may also include representatives from industry provided they possess the relevant technological or cost accounting expertise.

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Sen. George Runner (Ret.)  
Member  
State Board of Equalization

We believe this recommendation provides the best path forward for assisting assessors and taxpayers in discovering and more accurately determining the existence and value of embedded software.

While the absence of data has prevented efforts by Assessors to determine if application software is embedded in certain property, and if so what portion of that property's value relates to the application software, these guidelines may provide all parties with standards that may eventually lead the CAA to develop uniform approaches, and possibly standardized reductions for embedded software by equipment category. This effort could relieve both parties of costly litigation, and more importantly lead to a more uniform and equalized approach throughout the state for assessments of similar properties.

I look forward to discussing these recommendations and further receiving the Board's feedback and suggestion for next steps.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Bordonaro". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tom Bordonaro  
Assessor  
Chair, CAA

Cc: Member of the Board of Equalizations  
Dean Kinnee  
Larry Stone, Chair, CAA Ad-Hoc Committee on Embedded Software