

Name: _____

County: _____

**ASSESSMENT OF WATER COMPANIES AND WATER RIGHTS
SELF-STUDY TRAINING SESSION**

REVIEW QUESTIONS

PART I. ASSESSMENT OF WATER COMPANIES

1. Since water systems and water source properties are regulated by the California Public Utilities Commission, they are all assessed at the state level.

☐ True

☐ False

2. Match the following by definition:

1	Regulated Public Utilities
2	Mutual Water Companies
3	Government-Owned Water Systems
4	Other Water Source Properties

	Water systems and properties that are owned or held by agencies of the federal, state, county, or local governments.
	Private associations created for the purpose of providing water primarily to its stockholders or members and not subject to regulation by the CPUC unless the company deliver water for profit to persons other than stockholders and members.
	Water source properties including privately-owned and used water systems and properties located on or associated with entities such as manufactured home parks, campgrounds, lodges, and country clubs.
	Companies in business to earn a profit from the sale of water and subject to regulation by the CPUC.

3. Which of the following water systems is not subject to regulation by the California Public Utilities Commission [mark all that apply]?

☐ Mutual Water Companies

☐ Regulated Public Utilities

☐ Other Water Source Properties

☐ Government-Owned (Publicly-Owned) Water Systems

4. Proper classification of a water system is important because each type of property may have unique issues that affect value and taxability.
- ☐ True
- ☐ False
5. Which department is responsible for the inspection and regulatory oversight of public water systems to assure the delivery of safe drinking water to all California consumers?
- ☐ County Department of Public Health
- ☐ California Public Utilities Commission
- ☐ California Department of Health Services
- ☐ All of the above
6. If an assessee does not file a property statement by a prescribed deadline, the assessor shall estimate a value and add a 10 percent penalty to that estimated assessed value.
- ☐ True
- ☐ False
7. Since the Board prescribes a property statement for regulated water companies, the assessor must use that property statement in order to enforce the section 463 penalty for the non-filing or late filing of a property statement.
- ☐ True
- ☐ False
8. Information reported on a CPUC report can be helpful in appraising water system properties. The report includes: [Mark all that apply]
- ☐ Revenue and expense information
- ☐ Information regarding a company's assets
- ☐ Description of plant in service
- ☐ Condition of the plant
- ☐ Annual income statements
- ☐ All of the above
9. Personal property owned or used by a water company is governed by the base year value limitations of article XIII A since it is locally assessed by the assessor.
- ☐ True
- ☐ False

10. In general, only publicly-owned public utilities are regulated.
- ☐ True
- ☐ False
11. Public utility water companies are assessed by the State Board of Equalization as required by article XIII, section 19 of the California Constitution.
- ☐ True
- ☐ False
12. Privately-owned public utility water companies, that operate to earn a profit from the sale of water, are subject to regulation by: [Mark all that apply]
- ☐ County Department of Public Health
- ☐ California Public Utilities Commission
- ☐ Regional Water Quality Control Boards
- ☐ State Water Resources Control Board
13. The sum of the cost of providing service plus the earning determines the total revenue requirements for utilities.
- ☐ True
- ☐ False
14. The rate base for a regulated water utility is set prospectively over a two-year period consisting of two test years and one attrition year based on cost.
- ☐ True
- ☐ False
15. In computing the rate base by the CPUC, which of the following are added to arrive at the rate base: [Mark all that apply]
- ☐ Average Accumulated Deferred Income Taxes
- ☐ Average Deferred Investment Tax Credits
- ☐ Average Working Cash
- ☐ Average Materials and Supplies
- ☐ Average Contributions in Aid of Construction
- ☐ Average Reserve for Depreciation at End of Year
- ☐ All of the above
16. The CPUC must approve the sale or transfer of regulated water utilities.
- ☐ True
- ☐ False

17. As of January 1, 1996, if the Commission approves the acquisition of the utility, the Commission, in most cases, must recognize the actual purchase price as the basis for rate making.
- ☐ True
- ☐ False
18. Which are the most reliable and useful value indicators for properties subject to regulation?
- ☐ Comparative sales approach and replacement cost approach
- ☐ Stock and debt approach
- ☐ Historical cost less depreciation approach and income approach
- ☐ All of the above
19. The value of contributions in aid of construction is generally _____ because a prospective purchaser would not pay for property on which he or she is unable to earn a return on or recover the investment.
20. Advances for Construction are similar to contributions in aid in that the utility is allowed to earn a return on the Advanced property.
- ☐ True
- ☐ False
21. The CPUC rules provide that Advances shall be refunded by the utility, in cash, without interest for a period not to exceed:
- ☐ 10 years after the date of contract
- ☐ 20 years after the date of contract
- ☐ 30 years after the date of contract
- ☐ 40 years after the date of contract
22. A deferred income taxes account records the amount of future income taxes due for financial accounting purposes because of differences between the deductions for income tax purposes and for financial accounting purposes.
- ☐ True
- ☐ False
23. The historical cost less deprecation indicator for the properties should be adjusted to reflect the earnings limitation imposed by the rate making treatment of the deferred income taxes.
- ☐ True
- ☐ False

24. A mutual water company is a private (usually nonprofit) association created for the purpose of providing water primarily to its stakeholders or members.
- ☐ True
- ☐ False
25. Companies organized for mutual purposes are generally subject to regulation by the CPUC.
- ☐ True
- ☐ False
26. Which approach to value is generally preferred when appraising the property of a mutual water company: [Mark all that apply]
- ☐ Comparative sales approach
- ☐ Replacement cost approach
- ☐ Stock and debt approach
- ☐ Income approach
- ☐ Reproduction cost approach
27. In most cases, mutual water company shares are not appurtenant to the land.
- ☐ True
- ☐ False
28. The value of a mutual water company is included in the value of the land that it serves and/or to which the shares attach.
- ☐ True
- ☐ False
29. Government-owned water systems are subject to regulation by the CPUC.
- ☐ True
- ☐ False
30. Land owned by government entities should be assessed at the lowest of which of the following [mark all that apply]?
- ☐ Market value
- ☐ Restricted value (Article XIII, Section 11 of the California Constitution)
- ☐ Factored base year value (Proposition 13)
- ☐ All of the above

31. A water system has a possessory interest whenever the utility or assessee has the exclusive right to possess privately-owned property.
- ☐ True
- ☐ False
32. Generally, the most applicable method in appraising other water source properties is the reproduction cost method.
- ☐ True
- ☐ False
33. Locally assessed real property owned by a water company is generally assessed on each lien date at the lesser of its factored base year value or its full cash value.
- ☐ True
- ☐ False
34. Match the following by definition.

1	Comparative sales approach
2	Stock and debt approach
3	Reproduction cost approach
4	Replacement cost approach
5	Historical cost approach
6	Full economic costs
7	Depreciation
8	Income approach

	Relies on values of an organization's liabilities and net worth as establish in the capital markets.
	Any method that converts an anticipated income stream or future benefits into a present value estimate.
	Uses accounting information as prescribed by the agency regulating the property to compute a value indicator.
	All market costs necessary to purchase or construct property and make it ready for its intended use.
	Any approach that uses direct evidence of the market's opinion of value of a property.
	Estimates actual loss in value incurred by the property in the marketplace.
	An estimate of the cost of replacing a property with an exact replica using costs as of the valuation date
	Estimated cost of a property that is equivalent to the subject in terms of utility.

35. Which cost approach will most often be used in the appraisal of a water company or water system: [Mark all that apply]
- ☐ Replacement cost
 - ☐ Income approach
 - ☐ Comparative sales approach
 - ☐ Reproduction cost
36. The Constitution and the Revenue and Taxation Code require an allocation of value between land and improvements, even though a property is appraised as a single integral unit.
- ☐ True
 - ☐ False
37. Full economic costs include: [Mark all that apply]
- ☐ Direct and indirect market costs
 - ☐ Entrepreneurial services
 - ☐ Interest on borrowed or owner-supplied funds
 - ☐ Contractor's overhead and profit
 - ☐ All of the above
38. The most difficult aspect of the cost approach is estimating:
- ☐ Indirect costs
 - ☐ Entrepreneurial profit
 - ☐ Depreciation
 - ☐ Administrative expenses
39. The historical cost less depreciation approach is a generally accepted method for valuing property interests of rate base regulated utilities.
- ☐ True
 - ☐ False
40. A company's taxable historical cost is estimated by taking the historical cost of all property and adding the historical cost of nontaxable items.
- ☐ True
 - ☐ False

41. Using the data provided in the table below, determine the taxable historical cost of the assessable property.

Historical Cost (all property)	\$10,000,000
Historical Cost of Nontaxable Items	\$2,000,000
Contributions in Aid of Construction (CIAC)	\$200,000
Advances	\$30,000

\$ _____

42. Using the following data, determine the depreciation for the assessable property.

Book Depreciation	\$7,500,000
Depreciation for Nontaxable Property	\$300,000
Depreciation for Out of County/State Property	\$150,000

\$ _____

43. Which items should be included in the final value indicator when they are considered assessable properties pursuant to the Revenue and Taxation Code?

- ☐ Deferred taxes
- ☐ Advances for Construction
- ☐ Construction in progress
- ☐ Supplies
- ☐ Working cash
- ☐ All of the above

44. Property which is donated or given to a utility is known as contributions in aid of construction (CIAC).

- ☐ True
- ☐ False

45. Property contributed to a regulated utility is included in the rate base in determining the rates the utility can charge its customers.

- ☐ True
- ☐ False

46. When HCLD is a valid indicator of value for the entire appraisal unit, the value of CIAC is generally _____.

47. Using the data below, determine the HCLD value indicator.

Taxable Historical Cost of Assessable Property	\$15,235,000
Depreciation for Assessable Property	\$8,200,000
Deferred Income Tax Liability	\$100,000

\$ _____

48. The income approach should be considered as a valid approach to value when a property meets which of the following assumptions [mark all that apply]?
- ☐ Value depends upon the quality and quantity of the income stream (the investor demands a return of and on his/her investment in the property with consideration for risk).
 - ☐ Value is a function of income (the property is purchased for the income it will produce).
 - ☐ Future income is less valuable than present income (the value of the property is the sum of the present worth of its anticipated future net benefits).
 - ☐ All of the above
49. Direct capitalization is a method used to convert a single year's anticipated income into an indication of value by dividing the anticipated income by an appropriate rate or multiplying the anticipated income by an appropriate factor.
- ☐ True
 - ☐ False
50. Care should be exercised in the selection of a proper income stream premise or model. The primary model recommended for water companies is perpetual life concept.
- ☐ True
 - ☐ False
51. Where it is determined that replacements to the property will not be made, a perpetual life concept model is suggested.
- ☐ True
 - ☐ False
52. When a limited life model is deemed appropriate, any remaining benefits at the end of finite life are discounted to present value and added to the capitalization income.
- ☐ True
 - ☐ False

53. The perpetual life model assumes that the income stream is sustained into perpetuity because individual assets are replaced as they are retired.
- ☐ True
- ☐ False
54. Using the following data, calculate the working cash allowance.
- | | |
|--------------------------------------|--------------|
| Anticipated Operating Expenses | \$20,000,000 |
| 18-Day Working Cash Requirement | 5% |
| Projected Working Cash Requirement | \$ _____ |
| Basic Capitalization Rate | 10.0% |
| Income Tax Component | 4.5% |
| Basic Rate Plus Income Tax Component | _____ % |
| Working Cash Allowance | \$ _____ |
55. The capitalization rate includes which of the following [mark all that apply]?
- ☐ A basic capitalization (or yield rate)
- ☐ Components that account for property taxes
- ☐ Components that account for income taxes
- ☐ Components that account for capital recovery when appropriate
- ☐ All of the above
56. Article XIII, section 11 of the California Constitution generally provides that lands, water rights, and any other interests in lands owned by a local government that are located outside its boundaries are taxable if they were taxable when acquired by the local government.
- ☐ True
- ☐ False
57. Other than _____ and _____ counties, the value standard applicable to section 11 assessments is the lowest of the current fair market value, the factored base year value, or the 1967 assessed value multiplied by the appropriate Phillips Factor.
58. Section 11 makes taxable those extraterritorial interests in property held by local governments in both sole ownership and joint ownership.
- ☐ True
- ☐ False

59. The provisions of article XIII, section 11 of the California Constitution are applicable to personal property when acquired by a local government.
- ☐ True
- ☐ False
60. New construction includes which of the following [mark all that apply]?
- ☐ Fixtures added to a structure
- ☐ Increasing the size of a building
- ☐ Altering a structure to change its use
- ☐ Demolition of a building
- ☐ All of the above
61. Which approach is nearly always used to value construction in progress?
- ☐ Income approach
- ☐ Sales approach
- ☐ Cost approach
- ☐ Comparative sales approach
62. When a market value assessment for property is added to a final value indicator, care should be taken to ensure that the property's value is not already included in the value derived for the property as a whole.
- ☐ True
- ☐ False
63. Greatest weight should be given to the accuracy of the data in the reconciliation process.
- ☐ True
- ☐ False
64. Which of the following legal authorities authorize an assessor to conduct audits [mark all that apply].
- ☐ Section 441(d)
- ☐ Section 469
- ☐ Section 470
- ☐ Property Tax Rule 191
- ☐ Property Tax Rule 192
- ☐ Property Tax Rule 193
- ☐ All of the above

65. A total property audit involves the verification of considerably more information than a typical audit that focuses primarily on equipment and supplies.
- ☐ True
- ☐ False
66. A sampling to confirm accuracy can be used to verify correctness of acquisition dates recorded on the asset listing or accounting records.
- ☐ True
- ☐ False
67. When conducting an audit in which Advances are encountered, an auditor-appraiser should determine which of the following [mark all that apply]?
- ☐ Whether the Advances are added to the rate base as the Advances are paid by the utility.
- ☐ Whether the utility is refunding the Advances to the developers or customers over the stipulated period of time.
- ☐ Whether the value of Advances are subtracted from the total value of the remainder of the appraisal unit.
- ☐ The value of Advances for assessment purposes.
- ☐ All of the above
68. Where supplies are expensed, the auditor must review the supply expense account for the current year.
- ☐ True
- ☐ False
69. Match the source of obtaining information regarding leased equipment by its description.

1	General ledger
2	Cash disbursements journal
3	Lease contracts
4	Financial statements

	Verifies that all leases are accounted for and what costs are included in the lease payment/cost.
	May indicate not only the existence of leases but may also give important information associated with such leases.
	Indicates the amounts and payees of lease and rental payments.
	Indicates whether the assessee was making lease or rental payments on the lien date.

70. For an audit of a water company, the auditor should always tour the facility as a vital party of the audit.
- ☐ True
- ☐ False

PART II. ASSESSMENT OF WATER RIGHTS

71. The excess withdrawal from ground water basins is referred to as overdraft.
- ☐ True
- ☐ False
72. The largest use of water in California is for:
- ☐ Urban
- ☐ Commercial
- ☐ Industrial
- ☐ Agricultural
73. The permanent transfer of a water right is assessable and the mere transfer of water is not assessable.
- ☐ True
- ☐ False
74. Water rights in California can be acquired by: [Mark all that apply]
- ☐ Ownership of land with water rights
- ☐ Appropriation
- ☐ Prescription
- ☐ All of the above
75. All water within California is the property of the people of California, and is not subject to private ownership while in its natural state or watercourse, even though it is considered part and parcel of the land where it is found.
- ☐ True
- ☐ False
76. The measure of the water right in California is that amount of water diverted and put to beneficial use.
- ☐ True
- ☐ False

77. _____ traditionally refers to the amount or quantity of water necessary to irrigate a given measure of land.
78. Water rights are taxable as real property.
- ☐ True
- ☐ False
79. The right to appropriated water is an interest in personal property.
- ☐ True
- ☐ False
80. Riparian and overlying water rights are assessed as part of the associated land.
- ☐ True
- ☐ False
81. Appropriative and prescriptive rights to divert water are assessed at the point of diversion, not where the water is ultimately used.
- ☐ True
- ☐ False
82. Water transfers are a change in ownership of the water right for property tax purposes.
- ☐ True
- ☐ False
83. A stream that has a definite bed, banks, and a channel that flows into some other stream, river, lake, or sea is:
- ☐ Drainage basin
- ☐ Watercourse
- ☐ Watershed
- ☐ Runoff
84. When the water is prevented from further downward movement it begins filling cavities, rock fractures and other porous or void spaces in bedrock. The top of this saturated ground is:
- ☐ Ground water
- ☐ Surface water
- ☐ Artesian water
- ☐ Water table

85. The two types of water that are recognized by California water rights law are:
1. _____
 2. _____
86. Which types of water are governed by riparian, appropriative, and prescriptive rights?
- ☐ Surface water only
 - ☐ Ground water only
 - ☐ Surface and ground water
87. A riparian right accrues to anyone who owns the fee simple title to land adjoining a stream or lake, including parties with possessory interests in government land adjacent to the body of water.
- ☐ True
 - ☐ False
88. Riparian rights are generally lost by non-use.
- ☐ True
 - ☐ False
89. The appropriative right is limited solely to the amount of water reasonably necessary for that person's actual, beneficial use.
- ☐ True
 - ☐ False
90. An appropriative right is a basic right inherent to the ownership of the land and attaches to land contiguous to the water source.
- ☐ True
 - ☐ False
91. The land to which an appropriative right relates may be either contiguous to the stream or located at a distance from it, even in a different watershed.
- ☐ True
 - ☐ False
92. What are the ways that the appropriative rights can be lost: [Mark all that apply]
- ☐ Eminent domain
 - ☐ Abandonment
 - ☐ Forfeiture caused by non-use
 - ☐ All of the above

93. An overlying water right refers to the right of the owner of lands overlying percolating ground waters to use the waters for reasonable beneficial purposes on the overlying land within the same watershed.
- ☐ True
- ☐ False
94. A prescriptive right is acquired to use a specific amount of water for a specific purpose, the quantity determined by the highest amount beneficially used over a four year period.
- ☐ True
- ☐ False
95. A prescriptive right can be acquired on excess or surplus water.
- ☐ True
- ☐ False
96. An adjudicated water right is a separate type of water right but a term used to describe a method of confirming or validating water rights between claimants.
- ☐ True
- ☐ False
97. The pueblo right is superior to all other rights.
- ☐ True
- ☐ False
98. From the following data, determine the water right value using the income approach.

Annual Income	\$10,000
Market-Derived Direct Capitalization Rate	9%
Effective Ad Valorem Property Tax Rate	1%

\$ _____

99. Since water rights are considered land by definition, the severed water right is most appropriately entered on the secured roll as land value.
- ☐ True
- ☐ False

100. Watermasters may be a resource for which of the following [mark all that apply]?

- ☐ Sale and lease information regarding ground water rights
- ☐ Leases in the basin
- ☐ Whether a sale of a water right has occurred
- ☐ Date and amount of a transaction and the parties involved
- ☐ All of the above