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TO COUNTY ASSESSORS AND INTERESTED PARTIES:

No. 2001/039

VALUATION OF SECTION 515
LOW-INCOME HOUSING PROJECTS

At the request of several interested parties, staff recently undertook a review of its longstanding position with respect to the valuation of "Section 515" low-income housing projects. As outlined in LTA 98/51, dated October 1, 1998, staff's position is that:

- The income approach is the preferred approach to valuing Section 515 projects.
- Revenue and Taxation Code section 402.9 prohibits including in the income to be capitalized any interest subsidy payments made by the government on behalf of a project owner.
- Although the preferred method of estimating a capitalization rate is by reference to sales prices and incomes of comparable properties, for Section 515 projects such data is, typically, unavailable. Accordingly, the band-of-investments method should be used to estimate a capitalization rate.
- That the interest subsidy is common to all Section 515 projects means the subsidized rate for the debt component (i.e., the owner's effective rate of 1 percent) should be used rather than a rate "appropriate to the California money markets," which would be atypical for investments in these properties.
- In the event that the capitalization rate is estimated by reference to sales prices and incomes of comparable Section 515 properties, then those sales prices should not be adjusted to their "cash equivalents."

With the review completed, the essence of staff's position remains unchanged, and the issues that precipitated the request for the review are unresolved. Accordingly, these issues are scheduled for discussion at the Board's Property Tax Committee (PTC) meeting on September 12, 2001.

Prior to the PTC meeting, staff will meet with interested parties to discuss the unresolved issues. Specifically, those issues can be stated as follows:

1. *Does Revenue and Taxation Code section 402.9 preclude use of the subsidized rate for the debt component in the band-of-investments method of determining the capitalization rate?*

2. *If section 402.9 does not affect the calculation of the capitalization rate, is it nonetheless appropriate to use the subsidized rate considering the Board's own property tax rules, accepted appraisal practices, and principles of finance?*
3. *Is it ever lawful for a project in the Section 515 program to be assessed according to a fair market value determination that is greater than such a determination for an otherwise comparable project outside the Section 515 program?*

Interested parties are encouraged to submit written comments on these issues. Comments will be accepted through July 18, 2001.

After comments have been received from interested parties, the project will proceed as follows:

- August 10, 2001: Staff to meet with interested parties to discuss the issues identified in this letter and comments received. The meeting is scheduled to begin at 9:30 a.m. in Room 122, Board of Equalization, 450 N Street, Sacramento.
- August 29, 2001: Staff to submit an issue paper and other materials for the Property Tax Committee meeting.
- September 12, 2001: Board's Property Tax Committee to discuss any unresolved issues.

This letter and all future documents relating to this project will be posted to the Board's Web site (www.boe.gov) and can be accessed by way of the following links: (1) Property Taxes, (2) Property Tax Committee Work Plans, (3) Property Tax Committee Work Plans 2001. If you have any questions or comments regarding this project, please contact:

Mr. Paul Lane at (916) 324-5828; paul.lane@boe.ca.gov; or
Mr. Mark Nisson at (916) 324-0295; mark.nisson@boe.ca.gov.

Sincerely,

/s/ Richard C. Johnson

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:lt