



STATE BOARD OF EQUALIZATION
PROPERTY TAXES DEPARTMENT
450 N STREET, MIC: 64, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
TELEPHONE (916) 445-4982
FAX (916) 323-8765
www.boe.ca.gov

July 6, 2001

JOHAN KLEHS
First District, Hayward

DEAN ANDAL
Second District, Stockton

CLAUDE PARRISH
Third District, Torrance

JOHN CHIANG
Fourth District, Los Angeles

KATHLEEN CONNELL
State Controller, Sacramento

JAMES E. SPEED
Executive Director

TO COUNTY ASSESSORS AND INTERESTED PARTIES:

NO. 2001/041

UPDATE OF ASSESSORS' HANDBOOK SECTION 501
BASIC APPRAISAL

The Board has initiated an update of Assessors' Handbook Section 501 (AH 501), *Basic Appraisal*. Enclosed are Board staff's proposed changes, which reflect recent statutory changes, regulatory amendments, and judicial decisions. In addition to the updates due to changes in law, minor nonsubstantive changes are also listed on the matrix with page references to the current handbook. Some of the areas that the update focus on include:

- Amendments to section 53.5 of the Revenue and Taxation Code made under Stats. 1998, Ch. 226 (AB 1246).
- Amendments to section 110 of the Revenue and Taxation Code made under Stats. 1998, Ch. 783 (SB 1997).
- Addition of section 423.4 of the Revenue and Taxation Code made under Stats. 1998, Ch. 353 (SB 1182).
- Amendments to section 469 of the Revenue and Taxation Code made under Stats. 2000, Ch. 613 (SB 1844).
- Revision to Property Tax Rule 10, Trade Level for Tangible Personal Property.
- Expansion of discussion on exclusions from reassessment to address trusts and legal entity interest transfers.

Interested parties may submit proposed revisions to the text presented in the matrix until August 21, 2001. The proposed revisions should be submitted as alternative text and should reference an item number on the enclosed matrix. Proposed changes to the manual other than those identified on this matrix will only be considered if they are supported by statutory changes, court decisions, regulatory changes, or changes to Board publications subsequent to the September 1997 adoption of the AH 501. Staff will review the suggested changes submitted and incorporate into the draft those that are deemed appropriate.

TO: COUNTY ASSESSORS AND INTERESTED PARTIES

July 6, 2001

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

- September 28, 2001: Staff to distribute an agenda matrix summarizing proposed changes to text presented in the attached matrix.
- October 16, 2001: Staff to meet with interested parties. The meeting is scheduled to begin at 9:30 a.m. in Room 122, Board of Equalization, 450 N Street, Sacramento.
- December 19, 2001: Board's Property Tax Committee will hear unresolved language issues.

If you have any questions regarding the enclosed matrix or the update of this handbook section, please contact Benjamin Tang at (916) 324-2720 or benjamin.tang@boe.ca.gov. The current handbook section is available on the Board's Web site (www.boe.ca.gov) or may be purchased from the Property Taxes Department at (916) 445-4982. Additionally, this letter and all future letters regarding this project will be posted on the Board's Web site and can be accessed by way of the following links: 1) Property Taxes, 2) Property Tax Committee Work Plans, and 3) Property Tax Committee Work Plans 2001.

Sincerely,

/s/ Richard C. Johnson

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:bt
Enclosure

ASSESSORS' HANDBOOK SECTION 501
BASIC APPRAISAL
STAFF'S PROPOSED REVISIONS

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
1.	Cover	Update: Update publication date, Board Members, and Executive Director at time of adoption.	Change to reflect current update of the handbook.
2.	Footers	Update: Update "September 1997" to "December 2001" upon approval.	Change to reflect current update of the handbook.
3.	Foreword First paragraph	Change: "This edition of the Assessors' Handbook Section 501, <i>Basic Appraisal</i> , is <u>an update of a complete rewrite of the original manual which was rewritten in September 1997. The manual</u> (formerly <u>entitled <i>General Appraisal Manual</i></u>) <u>was originally</u> written in 1960 and revised in 1975 and 1982. The <u>1997 rewritten-rewrite of the manual</u> includes a complete reorganization of topics, the expansion and clarification of some portions of the existing text, and the addition of material concerning subjects not previously covered. The rewrite was undertaken by staff members of the Policy, Planning, and Standards Division (PPSD) <u>in conjunction with the staff of the Property Taxes Section of the Legal Division of the State Board of Equalization and is the product of PPSD authors staff writing at the direction of the Board.</u> "	Change to reflect current update of the handbook.
4.	Foreword End of 3rd paragraph	Add: <u>"The Board originally approved this particular manual in September 1997, and adopted this update on December 19, 2001."</u>	Addition to reflect current update of handbook.

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
5.	Foreword After last paragraph	Add: <u>"Under Government Code sections 15606 et seq., the Board is charged with the duty of administratively enforcing and interpreting the statutes governing the local assessment function. While regulations adopted by the State Board of Equalization are binding as law, Board-adopted manuals are advisory only. Nevertheless, courts have held that they may be properly considered as evidence in the adjudicatory process.^(FN) All citations and legal references were current as of the writing of this publication."</u> <u>"(FN) <i>Coca-Cola Co. v. State Board of Equalization</i> (1945) 25 Cal.2d 918; <i>Prudential Ins. Co. v. City and County of San Francisco</i> (1987) 191 Cal.App.3d 1142; <i>Hunt Wesson Foods, Inc. v. County of Alameda</i> (1974) 41 Cal.App.3d 163."</u>	Add to inform reader of the status of the Assessors' Handbook.
6.	Foreword Below signature block	Change: Update "September 1997" to "December 2001" upon approval.	Change to reflect current update of the handbook
7.	Table of Contents	Update based on revisions.	Alter to reflect current update of the handbook.
8.	Page 8 4 th paragraph Quote	Change: "...seller could take advantage of the exigencies of the other, and both with the buyer and seller have knowledge of all the uses and purposes to which the property is adapted and for which it is capable of being used, and of the enforceable restrictions upon those uses and purposes."	Change due to the statutory amendments to section 110 of the Revenue and Taxation Code made under Stats. 1998, Ch. 783 (SB 1997) in effect September 23, 1998.
9.	Page 11 Footnote 14	Change: "(FN) For example, under section 51(b) and rule 461 (d) (e), when considering declines in value caused by a calamity, land, improvements, and fixtures are separate appraisal units. <u>Similarly, the Legislature declared leach pads, tailing facilities, and settling ponds on mining property to be separate appraisal units for valuation purposes, pursuant to section 53.5</u> "	Change due to the statutory amendments to section 53.5 of the Revenue and Taxation Code made under Stats. 1998, Ch. 226 (AB 1246) in effect January 1, 1999. Also see LTA 99/47 and Property Tax Rule 469.

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
10.	Page 12 2 nd paragraph	Change: "The principal <u>principle</u> of unit valuation... railroads. Section 732 specifically provides, '[t]he board may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit.'"	Change to correct misspelling and correct quotation – add parenthesis around "t" of the word "the"
11.	Page 16 2 nd paragraph after last sentence	Add: "A property subject to open-space restrictions is now assessed at the lowest of: (1) its value determined by income capitalization with a nonmarket rate-its restricted value; (2) its factored base year value; or (3) its current market value. <u>Legislation adopted in 1998 added a further reduction in assessment for land restricted by contract for a term of 20 years and designated as a 'farmland security zone' per section 423.4.</u> "	Change necessary due to amendments to section 423.4 made under Stats. 1998, Ch. 353 (SB 1182), effective August 24, 1998.
12.	Page 16 4 th & 5 th paragraphs	Change: " Similar-Beginning with legislation adopted in 1974, established that the creation of open-space easements imposed for the purpose of preserving scenic rights were sufficiently enforceable to qualify the property for special appraisal consideration must also be given to qualifying open space easements granted to a city, county, specified district or nonprofit organization, or regional park, as defined in section 421(e). In 1994, the Legislature added conservation, trail or scenic easements granted to a public agency or a nonprofit corporation to section 402.1(a), requiring appraisers to consider the effect of such enforceable restrictions on the use to which the land may be subjected. Effective in 1996, new provisions codified in sections 421.5 and 422.5 authorize for special appraisal consideration agricultural conservation easements as enforceably restricted properties. Scenic restrictions must conform to the criteria set forth in the statutes. Section 8 of article XIII of the California Constitution and sections 421 through 430.5 pertain to the valuation of open space properties."	Combine chapters 4 and 5 and modify to clarify topic.

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
13.	Page 17 4 th paragraph 2 nd sentence	Change: "Thus, proper appraisal of nonprofit golf courses means that not only are annual increases in assessed value limited to a maximum of 2 percent, but <u>also</u> the value to which those annual increases is applied is determined according to a restricted value standard."	Minor correction
14.	Page 17 6 th paragraph	Add: "Under certain circumstances, land and improvements that are owned by local governments but are located outside their boundaries are taxable. <u>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. Section 11 also provides that improvements owned by a local government are taxable if they were taxable when acquired or were constructed by the public owner to replace improvements that were taxable when acquired. Whether land or improvements, these taxable government-owned properties are generally referred to as "Section 11" properties. These properties and are subject to a special valuation procedures prescribed by the section 11 California Constitution."</u>	Addition to provide more detail as approved by the Board on June 15, 2000, in <i>Guidelines for the Assessment of Taxable Government-Owned Properties</i> .
15.	Page 20 5 th paragraph 3 rd sentence	Change: "Although a detailed discussion of the classification issue involving land and improvements is beyond the scope of this manual, it is important to recognize that this issue is sometimes complex and, in many cases, can have a significant effect on current and future assessments and property taxes. ^(FN) <hr/> ^(FN) For a discussion on classification of property see Chapter 2 of the Assessors' Handbook Section 504, <i>Assessment of Personal Property and Fixtures</i> ."	Add reference

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
16.	Page 21 3 rd paragraph 4 th sentence	Change: "Rule 122.5(b)(1) states that '[p]roperty is physically annexed if it is attached to, embedded in, or permanently resting upon land or improvements <u>in accordance to section 660 of the Civil Code</u> , or by other means that are normally used for permanent installation.' Subdivision (b)(2) provides..."	Minor correction of quotation
17.	Page 23	Change: "(1) 'Independent' means the ability to exercise authority and exert control over the management or operation of the property or improvements, separate and apart from the policies, statutes, ordinances, rules, and regulations of the public owner of the property of improvements. A possession or use is independent if the possessor <u>possession</u> or operation of the property is sufficiently autonomous to constitute more than a mere agency."	Minor correction of quotation – change "possessor" to "possession"
18.	Page 24 Footnote 28	Change: "(FN) Assessors' Handbook Section 545, <i>Valuation of Water Rights</i> <u>542, <i>Assessment of Water Companies and Water Rights, Part II.</i></u> "	Alter to reflect the new title and revision of the Assessors' Handbook Section regarding the assessment of water rights
19.	Page 25 1 st paragraph 1 st sentence	Change: " <i>The Appraisal of Real Estate</i> defines transferable development right as 'a development right that is separated from a landowner's bundle of rights and transferred, generally by sale, to another landowner in the same or in a different area.'(FN)"	Minor correction of quotation - Delete the word "in"
20.	Page 25 Footnote 30	Add: "(FN) The fair market value of TDRs may be estimated using the comparative sales and/or the income approach. These approaches to value are discussed in Chapter 6. The base year values of both the seller's and the buyer's properties are <u>may be</u> affected by a transfer <u>of</u> such rights. See also <i>Mitsui Fudosan v. Los Angeles County</i> (1990) 219 Cal.App. 3d 525, Letter to <u>To</u> Assessors 91/12 regarding transferable development rights."	Add reference

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
21.	Page 25 5 th paragraph	Change: "Rule 123 defines tangible personal property as '[a]ll all property that may be...'"	Minor correction – add parenthesis around "a" of the word "all"
22.	Page 25 Footnote 31	Change: "(FN) The assessment of manufactured housing shares many of the concepts of real property assessment. See section 5800 et seq. The assessment of manufactured housing is discussed in Chapter 8 of this handbook section and Assessors' Handbook Section 511, <i>Assessment of Manufactured Homes and Parks</i> ."	Minor change to inform reader of additional resources.
23.	Page 27 Footnote 33	Change: "(FN) See Assessors' Handbook Section 262, Church Exemption; Assessors' Handbook Section 265, <i>Cemetery Exemption</i> ; and Assessors' Handbook Section 267, Welfare, <i>Church, and Religious Exemptions</i> ; and Assessors' Handbook Section 504, <i>Assessment of Personal Property and Fixtures</i> , Chapter 6."	Modify to reflect the revision of Assessors' Handbook Section 267 and its new title.
24.	Page 29 2 nd paragraph 3 rd sentence	Change: "Freehold estates generally include only present estates <u>interests</u> ."	Minor correction
25.	Page 31 Last paragraph	Change: "While most easements do not constitute separate property interests, some types of easements may be components of the taxable appraisal unit that are <u>is</u> recognized by the appraiser."	Minor correction
26.	Page 31 End of last paragraph	Add: "... recognized by the appraiser. <u>In order for the grant of an easement to qualify as a change in ownership and subject the property to reappraisal, it must satisfy the three-part definition in section 60.</u> "	Add for clarification

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
27.	Page 32 1 st paragraph 2 nd sentence	Change: "The essential element of a license, whether <u>it</u> is it verbal or written, is that is must be assented to by the property owner, the licensor."	Minor correction
28.	Page 33 3 rd paragraph 1 st sentence	Change: "Generally, the value of <u>the</u> entire fee simple estate is assessed to the owner of record."	Minor correction - add the word "the"
29.	Page 34 6 th paragraph last sentence	Add: "...concurrent interests. <u>(FN)</u> " <hr/> " <u>(FN) See Letter To Assessors No. 85/85.</u> "	Add reference
30.	Page 34 Last paragraph 2 nd sentence	Change: "...sidewalks, green belts <u>greenbelts</u> , swimming pools, and recreational areas) maintained by the condominium..."	Minor correction
31.	Page 35 1 st paragraph	Add: "Statutes found in <u>sections 66426 et seq. of the California Government Code</u> provide..."	Add reference
32.	Page 35 Footnote 42	Add: "...see section 998, and rule 472, <u>and Letters To Assessors 82/92 and 99/67.</u> "	Add reference
33.	Page 36 1 st paragraph 1 st sentence	Change: "...manual; however, it is important to note that different forms of legal entity <u>entities</u> are used as ownership vehicles of real property for a variety of economic and legal reasons."	Minor correction

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
34.	Page 36 1 st paragraph last sentence	Change: "A change in control in the ownership of legal entities may be a change in ownership for property tax purposes, requiring the <u>which a transferee acquires more than 50 percent of the interests in a legal entity, or a change in ownership in which the transferors are "original co-owners" who transfer more than 50 percent of the legal entity interests, requires</u> reappraisal of the real property owned by the entity, <u>unless an exclusion applies.</u> " (no change to footnote 43)	Modify for clarification
35.	Page 44 1 st paragraph last sentence	Change: " <u>While the</u> The added productivity of property as a result of off-site improvements must be considered in light of the economic obligation assumed, <u>some off-site improvements may not be treated as assessable new construction. See Chapter 6 of Assessors' Handbook Section 502, Advanced Appraisal.</u> "	Modify for clarification
36.	Page 47 1 st full quotation	Change: " <u>[T]he</u> The reasonably probable and legal use of vacant land or an improved property,..."	Minor correction – add parenthesis around "T" of the word "the"
37.	Page 47 Last paragraph	Add: " <u>Enforceable Governmental Restrictions</u> The property tax appraiser..."	Add heading
38.	Page 48 1 st quotation	Change: "(g)...[T]he further purpose and intent of the Legislature in enacting this section and Section 1630 is to avoid an assessment policy which, in the absence of special circumstances, considers uses for land which <u>that</u> legally are not available to the owner and not contemplated by government...."	Minor correction of quotation - change "which" to "that"

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
39.	Page 48 Last paragraph	Add: <u>"Deed Restrictions</u> Deed restrictions that restrict the uses..."	Add heading
40.	Page 49 3 rd paragraph 1 st sentence	Change: "Section 402.1(a)(8) requires that the assessor consider the effect upon value of '[a] recorded conservation, trail, or scenic easement, as described in section 815.1 of the Civil Code, that is granted in favor of a public agency or <u>in favor of a nonprofit corporation organized pursuant to §Section 501(c)(3) of the Internal Revenue Code</u> that has as its primary purpose the preservation, protection, or enhancement of land in its natural, scenic, historical, agricultural, forested, or open-space condition or use."	Minor correction of quotation
41.	Page 49 5 th paragraph 2 nd sentence	Change: "Since an easement or right of way is <u>generally</u> not a fee or leasehold estate in land for change in ownership purposes, it generally does not constitute 'a transfer of value substantially equivalent to the fee' <u>upon transfer to the benefited person it is intended to benefit, as discussed in Chapter 3.</u> "	Minor change for clarification
42.	Page 49 6 th paragraph last sentence	Change: "...interest, where the restriction on use constitutes a property right retained by a public entity, whose property rights are exempt from taxation. "	Minor correction
43.	Page 50 1 st paragraph last sentence	Change: "However, if the CC&Rs are actually-effectively enforced by the association , the market will tend to value <u>the properties subject to CC&Rs</u> in a manner that reflects the existence of these restrictions <u>and the maintenance of effective land use planning, similar to that described in section 402.1(g).</u> "	Modify for clarification

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
44.	Page 51 1 st paragraph Last sentence	Add following footnote to end of last sentence under "Most Productive Use:" "...improvements has been subtracted).(FN) <hr/> (FN) <u>In Mola Development Corporation v. Orange County Assessment Appeals Board No.2 (2000) 80 Cal.App.4th 309, the condition of a contaminated property and the price it would bring in that condition must be considered in determining its resultant value.</u> "	Add for clarification
45.	Page 62 Last paragraph	Change: "Beg. At a point 30 ft. N. Of the S. W. Cor. Of Sec. 18,T. 6 S.R. 8 E. Mt. Diablo B. & M., th. N. along the section line 396.36 ft., th. N. 89° 35' E. 210.14 ft., th. S 396.36 ft., th. N. 89° 35' E. 210.14 ft., th. S. 396.36 ft., th. S. 89° 35' W. 210.14 ft. to beg.	Minor correction
46.	Page 63 4 th paragraph	Change: " N.W. 1/2, SW 1/4, SW1/4, SE 1/4, Sec. 12 T. 3N., R2 W M.D.B. & M, which would equal 5 acres. "	Minor correction
47.	Page 65 Footnote 61	Change: "(FN) Description of land for property tax purposes is addressed in sections 321 through 328. Also, see Assessors' Handbook Section 215, <u>Assessment Map Standards</u> Standards for Assessors' Maps, Parcel Numbering and Tax Rate Area Systems.	Alter to reflect the revision of Assessors' Handbook Section 215 and its new title.
48.	Page 66 Footnote 63	Add the following at the end of Footnote 63: "...value of the property. <u>See also Dominguez Energy, L.P. v. County of Los Angeles (1997) 56 Cal.App.4th 839; and Mola Development Corporation v. Orange County Assessment Appeals Board No.2 (2000) 80 Cal.App.4th 309.</u>	Add further reference

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
49.	Page 70 4 th paragraph	<p>Change:</p> <p>"This does not mean, however, that the adjusted sale price must <u>is to</u> be enrolled as market value in all cases. <u>According to subdivision (b) of section 110 "[t]here is a rebuttable presumption that the value of improvements financed by the proceeds of an improvement bond resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration."</u> For example, o otherwise similar properties may sell for the same sale price regardless of the existence or nonexistence of 1911, 1913, or 1915 Act bonds. If this is the case, and can be supported with market data, the appraiser may conclude that the fair market value of the subject property encumbered with a 1911, 1913, or 1915 Act bond is equal to its nominal sale price and not its adjusted sale price that includes the fair market value of the 1911, 1913, or 1915 Act bond."</p>	Change necessary due to amendment of section 110 of the Revenue and Taxation Code made under Stats. 1998, Ch. 783 (SB 1997). See LTA No. 99/12.
50.	Page 70 Last paragraph 3 rd sentence	<p>Change:</p> <p>"Second, the tax rate or levy for of Mello-Roos bonds may be in excess of what is needed to retire the bonds."</p>	Minor correction - delete the word "of"
51.	Page 77 End of last sentence of 4 th paragraph	<p>Add following new footnote to last sentence, last paragraph under "Historical Cost":</p> <p><u>"...California Public Utilities Commission and assessed by county assessors.(FN)</u> <u>"(FN) With respect to state assessed properties, see <i>Unitary Valuation Methods</i>, (revised March 2000), and regarding private water companies, see <i>Assessors' Handbook Section 542, Assessment of Water Companies and Water Rights, Part I.</i>"</u></p>	Add for clarification

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
52.	Page 79	Change: <ul style="list-style-type: none"> • Design <u>type</u> • Construction type • Quality <u>class</u> • Floor area <u>Area class</u> • Shape <u>class</u> 	Minor correction
53.	Page 82 1 st paragraph	Change: "Discussed below are: (1) the straight-line or age-life method; (2) the observed condition method ; (3) the capitalization of rental loss method ; and (4) the sales data or market method; and (3) the breakdown method."	Change to include a discussion of the breakdown method.
54.	Page 82 4 th paragraph	Change: <u>Cost to Cure Technique Observed Condition Method</u> This method <u>technique</u> may be used to measure physical deterioration and curable functional obsolescence. It requires the appraiser to estimate the cost to cure items of physical deterioration and functional obsolescence that are in fact curable. However, the cost to cure technique observed condition method cannot measure incurable functional obsolescence or external obsolescence."	Minor correction. Move this section to follow the discussion of the breakdown method presented in matrix item 56.
55.	Page 82 5 th paragraph	Change: <u>Capitalization of Rental Loss Technique</u> The capitalization of rental loss method <u>technique</u> may be used to measure loss of value from any cause. This method <u>technique</u> is based on the premise that any loss in value of the property would also be reflected by a loss in either the amount or duration of rental income (actual or imputed) to the property. To use this method <u>technique</u> , the appraiser must identify the actual cause of depreciation and estimate the loss of rental income due to this cause of depreciation."	Minor correction. Move this section to follow the discussion of the breakdown method presented in matrix item 56.

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
56.	Page 83 Insert after the 1st paragraph	Addition: <u>Breakdown Method</u> <u>The breakdown method is a comprehensive and detailed way to measure depreciation. The breakdown method is used to measure all items of depreciation individually (i.e., physical, functional, and external). In this method, total depreciation is determined by adding together all the individual estimates of depreciation. Several techniques used to calculate the different types of depreciation in the breakdown method are discussed below. The techniques discussed are the cost to cure and the capitalization of rental loss."</u>	Change to include a discussion of the breakdown method. Items 54 and 55 to follow this paragraph.
57.	Page 85 Last paragraph 3 rd sentence	Add: "If it is established that the property would not have sold for that price in an open market transaction, the sale price may be disregarded and the property assessed at its fair market value as estimated <u>by using other value indicators, including other comparable sales.</u> "	Add for clarification
58.	Page 87 3 rd paragraph 3 rd sentence	Change: "An inspection of the property is also statutorily authorized and may be desirable to determine physical condition, locational influences, and visual appeal.	Minor correction
59.	Page 87 4 th paragraph 3 rd sentence	Change: "...transaction or characteristics of the property that have affected sales prices, and are referred to as <i>elements of comparison</i> ."	Minor correction - delete comma after the word "prices"
60.	Page 87 Last section	Add: <u>"5. An adjustment for differences in highest and best use</u> <u>6.5. An adjustment..."</u>	Add separate element to recognize the adjustment for differences in highest and best use in the sales data adjustments. Renumbered accordingly.

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
61.	Page 88 1 st paragraph Add paragraph	<p>Moved from second paragraph of page 91:</p> <p>"... should be made in the same order in which the elements of comparison are listed above.</p> <p><u>The degree of comparability between a sale and the subject property determines which adjustments are necessary and the size of the adjustments. Typically, adjustments for each characteristic are made as dollar amounts or as percentages. The appraiser adjusts the sales prices of the comparables upward or downward in order to make them comparable to the subject property. Adjustments may be measured using a variety of quantitative and qualitative techniques.</u>^(FN)</p> <hr/> <p><u>(FN) See Assessors' Handbook Section 502, <i>Advanced Appraisal</i>.</u></p>	Relocate misplaced paragraph from page 91, 2 nd paragraph.
62.	Page 88 Footnote 77	<p>Change:</p> <p>"(FN) See rule 4(b)(2) and Chapter 3 under "Fee Simple Concept and the Valuation of Property Subject to a Lease <u>Importance of the Fee Simple Concept in Property Tax Appraisal.</u>"</p>	Minor correction
63.	Page 100 1 st paragraph Last sentence	<p>Change:</p> <p>"The following sections contain discussions of deriving an overall capitalization from comparables sales and valuing a subject property using direct capitalization with an overall rate."</p>	Minor correction – delete "s" from the word "comparables"
64.	Page 109 1 st paragraph 1 st sentence	<p>Add:</p> <p><u>"...taxation of tangible personal property is discretionary with the Legislature.</u>^(FN)"</p> <hr/> <p><u>"(FN) The information covered in this chapter is merely a brief summary of the appraisal issues regarding personal property; for a thorough analysis, see Assessors' Handbook Section 504, <i>Assessment of Personal Property and Fixtures</i>."</u></p>	Add footnote for clarification

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
65.	Page 109 2 nd paragraph 3 rd sentence	Change: "...market value every year; it is not governed by the value limitations under <u>article XIII A of the California Constitution</u> (Proposition 13)."	Minor correction
66.	Page 109 5 th bullet	Change: <ul style="list-style-type: none"> "The amount of taxes paid on personal property by general corporations affects the determination of bank and financial corporations' income tax rate Unless otherwise provided by the Legislature, the tax on State and national banks shall be according to or measured by the net income and shall be in lieu of all other taxes and license fees upon banks or their shares, except taxes upon real property and vehicle registration and license fees."(FN) <hr/> (FN) <u>Section 27 of article XIII of the California Constitution</u>	Minor change to provide more precise information
67.	Page 110 2 nd paragraph 2 nd sentence	Change: "If <u>property is leased for a term of</u> the term of <u>is more than six months</u> , the situs is determined on the basis of the lessee's use."	Minor change to provide more precise information
68.	Page 110 2 nd paragraph Last sentence & footnote 91	Change: "Although there are numerous special situations regarding situs, a discussion of these is beyond the scope of this manual and reference to <u>Chapter 3 of other sections of the Assessors' Handbook Section 504, Assessment of Personal Property and Fixtures</u> is recommended.(FN)" <hr/> "(FN) Refer to Assessors' Handbook Section 221, Tax Situs of Property."	Delete reference to Assessors' Handbook Section 221, <i>Tax Situs of Property</i> because it is out of print.
69.	Page 110 3 rd paragraph 2 nd sentence	Change: "The property statement is the form on which these costs are reported <u>declaration of assessable property, signed under penalty of perjury, on which business personal property is reported (See Chapter 7, Assessors' Handbook Section 504, Assessment of Personal Property and Fixtures.)</u> "	Modify for clarification

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
70.	Page 110 5 th paragraph Quotation 2 nd sentence	Change: "Every person owning personal property which that does not require the filing of a property statement or real property shall, upon the request of the assessor, file a signed property statement."	Minor correction of quotation
71.	Page 112 - 113 Entire "Trade Level" discussion	See Appendix A	Modify to be consistent with Assessors' Handbook Section 504, <i>Assessment of Personal Property and Fixtures</i> , which was revised June 2000.
72.	Page 114 1 st paragraph 1 st sentence	Add: "Banks and financial corporations are also exempt from personal property taxation pursuant to section 23182. <u>(FN)</u> <u>(FN) Beginning in 2000 state-chartered credit unions are exempt from paying the bank and corporate in-lieu franchise tax (section 23701y). As such, assessors need to independently evaluate, on a case by case basis, whether these entities qualify as a financial corporation for assessment purposes. The personal property of those qualifying as financial corporations remain exempt from property tax."</u>	Change due to amendments made under Stats. 1999, Ch. 675 (SB 934), effective October 10, 1999. Also see page 103 of Assessors' Handbook Section 504, <i>Assessment of Personal Property and Fixtures</i> .
73.	Page 114 2 nd paragraph Last sentence	Add footnote: "...These include the purchase price of the equipment, sales and use tax, freight charges, installation and set-up costs, machinery foundation costs, and trade level adjustments where applicable. <u>(FN)</u> <u>(FN) Except personal property leased for a period of six months or less (rule 10(c)) and for certain liquefied petroleum gas tanks as provided by rule 153.</u>	Update to reflect February 23, 2000 amendment of Property Tax Rule 10, effective May 25, 2000 and Property Tax Rule 153, adopted February 23, 2000, effective May 28, 2000. Also see LTAs 2000/002 and 2000/003.
74.	Page 114 3 rd paragraph 2 nd sentence	Change: "...comparable equipment. Assessors' Handbook Section 581, <i>Equipment Index and Percent Good Factors</i> (AH 581),..."	Change necessary to correct the title of the AH 581.

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
75.	Page 115 4 th paragraph Quotation	Change: "...in a profession, trade, or business has a full value of three <u>four</u> hundred thousand dollars (\$300,000 <u>\$400,000</u>) or more, the assessor shall..."	Change necessary due to amendment of section 469 of the Revenue and Taxation Code made under Stats. 2000, Ch. 613 (SB 1844).
76.	Page 115 6 th paragraph After 1 st sentence	Add: "...are correct or should be changed. <u>A property tax audit (per rule 191) is a means of collecting data relevant to the determination of taxability, situs, and value of property.</u>	Add for clarification
77.	Page 115 6 th paragraph Last sentence	Add: "...opportunity for the auditor to clarify correct reporting procedures with the taxpayer. <u>(FN)</u> <hr/> <u>(FN) See Chapter 8, Assessors' Handbook Section 504, Assessment of Personal Property and Fixtures.</u>	Add reference
78.	Page 116 2 nd paragraph Last sentence	Change: "... appraiser shall estimate the value of the property, and based on such estimate, shall promptly assess <u>the property.</u> "	Minor correction
79.	Page 117 1 st paragraph Last sentence	Add the following footnote to the end of the first paragraph: "...for essentially similar treatment for these properties. <u>(FN)</u> <hr/> <u>"(FN) See Assessors' Handbook Section 511, Assessment of Manufactured Homes and Parks, for a detailed discussion of this topic."</u>	Add reference

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
80.	Page 119 4 th paragraph	Change: <u>"The statutory definition of <i>manufactured home accessory</i> includes both portable and permanently installed items. Manufactured home accessories are defined in Health and Safety Code section 18008.5, which provides that accessories include, but are not limited to, awnings, storage cabinets, carports, skirting, heaters, coolers, fences, windbreaks, and porches. Accessories are valued under the code sections applying to personal property. Accessories may be real or personal property but, unless they qualify as household furnishings within the context of the law, they are generally subject to local property taxation, whether or not the manufactured home to which they belong is subject to local property taxation. However, pursuant to section 5805, accessories installed..."</u>	Change to be consistent with the revised Assessors' Handbook Section 511.
81.	Page 120 Item 1	Change: "1. It is designed and built to be used, or is modified to be used, as a stationary waterborne residential dwelling."	Minor correction of quotation – add comma after the word "used"
82.	Page 120 1 st paragraph	Change: "The statute prescribes that a floating home is not to be assessed as a vessel, but is valued like other real property under the provisions of <u>article XIII A of the California Constitution</u> (Proposition 13)."	Modify to improve accuracy
83.	Page 124 3 rd paragraph 2 nd sentence	Change: "Assessors' Handbook Section 274 <u>201</u> , <i>Assessment Roll Procedures</i> , contains helpful discussions regarding several types of escape and correction actions."	Change to reflect new handbook section number.
84.	Page 124 4 th paragraph	Change: "The property tax rate is composed to <u>of</u> two parts: (1) the basic, or general, rate; and (2) additional rate(s) levied to retire voter-approved debt."	Change to correct grammar – delete the word "to" and add the word "of"

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
85.	Page 124 5 th paragraph 2 nd sentence	Change: "The tax proceeds resulting from the basic rate are general revenues that are allocated among local jurisdictions (e.g., counties, eites <u>cities</u> , special districts, and school districts) according to a statutory formula."	Minor correction
86.	Page 125 5 th paragraph Last sentence	Change: "The third objective, property valuation and assessment, involves detailed analyses and <u>employing</u> considerable knowledge and skill."	Change for accuracy
87.	Page 125 6 th paragraph 1 st sentence	Change: "Under article XIII, section 19 of the California Constitution, the SBE is responsible for the assessment of property owned or leased <u>used</u> by specified public..."	Change made to be consistent with language of section 19 of article XIII.
88.	Page 125 Last paragraph 1 st sentence	Add footnote: "...utilities (generally regulated telephone, telegraph, electric, and gas companies), the property of railroads, and all intercounty pipelines, canals, flumes, ditches, and aqueducts. ^(FN) <hr/> ^(FN) See the <i>State Assessment Manual</i> for a detailed discussion on state assessment."	Add reference to the <i>State Assessment Manual</i> , which was recently revised (November 2000).
89.	Page 128 1 st paragraph 1 st sentence	Add footnote: "All taxable property (both state and locally assessed) is assessed annually for property tax purposes as of 12:01 a.m. on January 1, which is called the <i>lien date</i> . ^(FN) <hr/> ^(FN) Section 2192 of the Revenue and Taxation Code.	Add reference
90.	Page 128 2 nd paragraph 1 st sentence	Change: "The statutes require that any person who acquires real property, a manufactured home, or a controlling interest (more than 50 percent) is a legal entity, <u>or any 'original co-owner' who transfers more than 50 percent of the interests in a legal entity, that owns real property</u> must file a change in ownership statement <i>within 45 days</i> of the date of transfer."	Modify for clarification

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
91.	Page 128 3 rd paragraph 1 st sentence	Change: "With respect to reporting personal property, section 441 requires that each person/legal entity owning taxable personal property costing \$100,000 or more shall file with the assessor a signed <i>property statement</i> between the lien date and <u>5 p.m. on April 1</u> the last Friday in May annually, or between the lien date and any earlier time the assessor may appoint (except such date may not be earlier than April 1). "	Change necessary due to amendment of section 441 of the Revenue and Taxation Code made under Stats. 1999, Ch. 334 (AB 704), in effect January 1, 2000.
92.	Page 128 3 rd paragraph 2 nd sentence	Change: "Persons or entities that do <u>not</u> meet the \$100,000 threshold are nevertheless required to file upon request of the assessor."	Minor change. Add the word "not."
93.	Page 128 Title before the 4 th paragraph	Add footnote: <u>"Taxpayer Appeals of Property Valuation^(FN)</u> <u>(FN) See the <i>Assessment Appeals Manual</i> for a detailed discussion on assessment appeals.</u>	Add reference to the recently revised <i>Assessment Appeals Manual</i> (September 2000).
94.	Page 128 4 th paragraph 1 st sentence	Change: <u>"The Property owners property owner or the owner's spouse, parents or child,^(FN1) any other person affected, or an authorized agent may appeal assessments appearing on the regular assessment roll by filing an <i>Application for Changed Assessment</i>, BOE-305-AH application for change in assessment with the county appeals board (either the board of supervisors sitting as a county board of equalization or an assessment appeals board appointed by the board of supervisors to replace the county board of equalization) <i>between July 2 and September 15.</i>^(FN2)</u> <u>^(FN1) Rule 305, subsection (a)."</u> <u>^(FN2) If September 15 falls on a Saturday, Sunday, or a legal holiday, an application that is mailed and postmarked on the next business day shall be deemed to have been filed within "the time period between July 2 and September 15."</u>	Change to make consistent with the <i>Assessment Appeals Manual</i> revised September 2000.

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
95.	Page 129 Last paragraph Last sentence	Change: "...creation of <u>article XIII A</u> (Proposition 13) but are provided under article XIII of the Constitution."	Modify for clarification
96.	Page 132 Last paragraph 1 st sentence	Change: "While several other Board-generated documents and publications provide advice regarding the application of property tax law and assessment (the Assessors' Handbook, Letters To Assessors, and Assessment Practices Surveys described above <u>previously</u> ..."	Modify for clarification
97.	Page 135 After 2 nd paragraph	Add: <u>"Trust Exclusion. Under section 62 (d), transfers of real property or interests in legal entities into a revocable trust or into an irrevocable trust in which the grantor/transferor is the present beneficiary are excluded from change in ownership. It is necessary to look through the trust to determine the beneficial owners of the property or legal entity transferred."</u>	Add for clarification
98.	Page 135 6 th paragraph Last sentence	Change: <u>"It is necessary to look through the legal entity to determine the proportionality of ownership interests and whether the exclusion applies; a A-change in ownership statement must be filed is required."</u>	Modify for clarification
99.	Page 135 After 6 th paragraph	Add: <u>"Legal Entity Interest Transfers. Under section 64(a), the purchase or transfer of ownership interests in legal entities, such as corporate stock, partnership or LLC interests, does not constitute a transfer of the real property owned by the legal entity, unless there is a change in control under section 64(c) or a change in ownership under section 64(d)."</u>	Add for clarification
100.	Page 136 2 nd paragraph 2 nd sentence	Change: "Proposition 8, passed in November 1978, amended <u>article XIII A</u> Proposition 13 to provide for declines in value."	Modify for clarification

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
101.	Page 136 3 rd paragraph 2 nd sentence	Change: "Prop 8 reductions in value are temporary reductions recognizing that the current market <u>value</u> of a property has fallen below its..."	Minor correction
102.	Page 137 Last bullet	Change: "Effective September 14, 1992 <u>January 1, 2001</u> , section 75.11(d) requires assessors to enroll all supplemental assessments: <u>1) on or before the fourth July 1 following the July 1 of the assessment year in which either a change in ownership statement under sections 480 – 480.2 was filed or preliminary change in ownership report under section 480.3 statement was filed or new construction was completed, 2) (on or before the sixth July 1 following the July 1 of the assessment year in which either a change in ownership statement under sections 480 – 480.2 was filed or a preliminary change in ownership report was filed, or new construction was completed if a the section 504 penalty was added), or 3) on or before the eighth July 1 following the July 1 of the assessment year in which the event occurred if the change in ownership or change in control was unrecorded and a change in ownership statement required by section 480 or preliminary change in ownership report, as required by section 480.3, was not timely filed. However, there is no limitations period on enrolling supplemental assessments if the penalty under section 503 is added</u> the assessment year for which the statute of limitations begins to run does not commence unless the taxpayer files the change in ownership or preliminary change in ownership statement. "	Change necessary due to amendment of section 75.11 of the Revenue and Taxation Code made under Stats. 2000, Ch. 647 (SB 2170), in effect January 1, 2001.
103.	Page 138	Change: "1 chain = 66 links <u>feet</u> "	Minor correction
104.	Page 138	Delete: " 1 acre = 4 rods "	Unnecessary

ITEM	SEPTEMBER 1997 PAGE	PROPOSED LANGUAGE	COMMENTS
105.	Page 146 Term: Recapture	Change: "... in part through resale of the property, or through a combinations of both."	Grammar correction – delete "s" in the word "combinations"
106.	Page 147 Term: Sale Price Adjustments	Change: "A procedure for deriving a value indicator by comparing the property being appraised to similar properties recently sold, by adjusting the sale prices of <u>each</u> the comparables using elements of comparison. The following adjustments ..."	Minor change to make the definition consistent with the definition contained in the AH 502.

Appendix A

(Pertains to Matrix Item 71)

"Trade Level

As stated earlier, historical costs are normally used as a starting point for the appraisal of personal property and fixtures. However, there are many situations where the owner's book costs do not provide adequate information for making a fair market value appraisal, and, therefore, the trade level principle must be applied. Consider the following three examples:

1. ~~ABC Grading Company purchases a bulldozer for \$250,000 and uses it to prepare land for a subdivision development.~~
2. ~~At the same time, Dozer Sales, a bulldozer dealer, purchases an identical bulldozer for \$200,000 (dealer's cost) and rents it on a one-year lease to JKL Grading Company. JKL uses the bulldozer to prepare land for subdivision development, in competition with ABC.~~
3. ~~Also at the same time, the bulldozer manufacturer provides an identical bulldozer to its subsidiary, RST Grading Company, a competitor of ABC and JKL. The manufacturer's cost is \$150,000. RST uses the bulldozer to prepare land for subdivision development, in competition with ABC and JKL.~~

~~If the assessor used the three owner's book costs as the sole basis for appraising personal property, the result would be three identical machines performing identical work but assessed at substantially different amounts. Obviously, given the limited facts supplied above, the fair market values of the three bulldozers should be identical (e.g., all should be assessed using a cost basis of \$250,000 and making appropriate adjustments for price changes, wear and tear, etc.). The assessor achieves fair market value for the three machines by applying the principle of trade level.~~

~~Trade level is the principle that property normally increases in value as it progresses through production and distribution channels. Tangible personal property is normally at its lowest value level at the manufacturing stage and attains its highest value level as it reaches the consumer level. The trade level principle is an important concept when assessing leased equipment, self-constructed equipment, or any other property in which the book cost is not indicative of the cost that would be incurred by the market in general, considering the location and use of the property.~~

~~The methods to be used for making trade level adjustments for personal property are governed by rule 10. In applying rule 10 to the example above, since all three bulldozers were being used at the consumer trade level on the lien date, all three must be valued on the same basis. Rule 10 requires that when such equipment is complete (i.e., in marketable condition) and is put to use by the manufacturer or the consumer/lessee, in~~

~~most situations it is deemed to be at the consumer trade level and is valued at what it would have cost had it been acquired from another supplier.~~

~~It is important to recognize that there are several complexities that need to be addressed for any given situation. For example, consider the rental of the bulldozer by Dozer Sales to JKL Grading Company. If the rental was for less than six months (instead of the one-year lease specified in the example), rule 10 directs that the bulldozer shall be assessed at Dozer's acquisition value (e.g. based on a cost of \$200,000) instead of the \$250,000 consumer level cost.~~

Consistent with the definition of full cash value, property must be assessed at the proper level of trade based on its location and use on the lien date. An appraiser must recognize that property normally increases in value as it progresses through production and distribution channels, and to the consumer, whether or not the cost or value added is booked.

The trade level concept is applicable when book cost does not provide adequate information for making a fair market value appraisal. It is a cost component, which is most frequently applicable to leased equipment and self-constructed equipment. Rule 10(a), *Trade Level for Tangible Personal Property*, explains the concept of trade level and reads in part:

In appraising tangible personal property, the assessor shall give recognition to the trade level at which the property is situated and to the principle that property normally increases in value as it progresses through production and distribution channels. Such property normally attains its maximum value as it reaches the consumer level. Accordingly, tangible personal property shall be valued by procedures that are consistent with the general policies set forth herein.

Under the provisions of the rule, personal property is assessed on the basis of how it is situated or used on the lien date rather than at the book cost of the owner. In effect, the rule provides for equal value for properties equally situated.

This concept is more easily understood using the following example.

EXAMPLE X
TRADE LEVEL

FACTS:

- ABC Grading Company purchases a bulldozer for \$250,000 and uses it to prepare land for subdivision development.
- At the same time, Dozer Sales, a bulldozer dealer, purchases an identical bulldozer for \$200,000 (dealer's cost) and rents it on a one-year lease to JKL Grading Company. JKL uses the bulldozer to prepare land for subdivision development, in competition with ABC.
- Concurrently, the bulldozer manufacturer (GHI) provides an identical bulldozer to its subsidiary, RST Grading Company (a competitor of ABC and JKL). The manufacturer's cost is \$150,000. RST uses the bulldozer to prepare land for subdivision development, in competition with ABC and JKL.

Logically, the full economic cost for each piece of equipment should be the same. In each situation, the bulldozer is used for the same purpose or at the same trade level. If no trade level adjustments were made and the book costs were used as the sole basis for appraising, the assessments would not be the same; they would be substantially different. The trade level principle, per Rule 10, requires the assessor to estimate fair market value for the three machines and provide uniformity of assessment.

Based on the information above, Dozer and GHI's costs would require two different trade level adjustments to arrive at the \$250,000 (consumer level) value. Dozer's cost (\$200,000) is a dealer cost that would not include retail items such as sales tax and the dealer's profit margin. GHI's cost (\$150,000) is the manufacturer's cost which does not yet include retail items missing from the dealer cost, plus items such as profit margin normally added in when the manufacturer sells the product to either the dealer or a retailer. In this case, the dealer cost is adjusted 125% ($\$250,000 / \$200,000$) and the manufacturer's cost is adjusted 167% ($\$250,000 / \$150,000$) to arrive at the proper trade level.

As illustrated in Example X, the trade level concept requires adjustments based on what a consumer at that level of consumption would pay. If another consumer of like property at that level of trade would be subject to a cost (i.e., sales tax), the full economic cost should include that cost component whether or not the cost was actually incurred. In *Xerox Corporation v. County of Orange*, (1977) 66 Cal.App.3d 746,¹ the Court indicated that under the market value concept, where price is the basis of value, the sales tax and freight charges are elements of value. Consumer trade level includes sales tax, freight and installation charges and the property is valued in accordance with the comparative sales, cost or income method. The courts have also supported the trade level concept by allowing inclusion of a markup in value for interdivisional transfers of manufactured goods for purposes of delivery or to facilitate marketing.²

Although rule 10 addresses the trade level principle for personal property specifically, the principle of trade level also applies to all fixtures such as machinery and equipment fixtures that are normally assessed as a separate appraisal unit from the structure property. For this reason, the business property statement contains directions on trade

¹ Decision supported in appeal, *County of San Diego v. Assessment Appeals Bd. No. 2* (1983) 140 Cal.App.3d 52.

² *Beckman Instruments, Inc. v. County of Orange* (1975) 53 Cal.App.3d 767.

level and directs the taxpayer to make trade level adjustments to book costs, when appropriate, for reporting any kind of property.

It is important to note that there are many circumstances where a property's historical cost is not necessarily the proper starting point for a fair market value appraisal. While the trade level issue most commonly arises in the case of personal property and fixtures, the appraiser should be alert for other situations in which valid book costs do not reflect the appropriate level of trade for property tax purposes."