



January 23, 2014

Ms. Sherrie Kinkle
State Board of Equalization
450 N. Street
Sacramento, CA 94279-0064

RE: Proposed Revisions to Property Tax Rule 133

Dear Ms. Kinkle,

We appreciate the effort that the State Board of Equalization is making in helping space launch companies secure the business inventory exemption under Rule 133. United Launch Alliance has been launching space vehicles from Vandenberg since 2007. We are very concerned about the County of Los Angeles's efforts to tax the launch vehicles and parts as "supplies" rather than treating them as business inventory.

To that end, we have some suggested modifications to the language of Rule 133, which I have attached. The first change we would like to see is the removal of the phrase "as a defense vehicle". Our reasoning is twofold:

- First, it is redundant as space flight property is already defined as "a defense article" within 22CFR 121.1,
- Second, and more importantly, often the average person who reads the Rule in a literal sense does not perform the research necessary to vet out the true meaning of the language used such as going on to read, in detail, 22CFR121.1(a) Category IV and XV.

In this instance, we believe that taxpayers and county auditors alike will see the phrase "as a defense vehicle" and interpret this phrase as excluding commercial launch vehicles from the exemption as they will not look to 22CFR 121.1 (a) Category IV and XV. This could create another round of misunderstanding which could be avoided by relying on the language in 22 CFR 121.1.

We also believe the Rule should be broad enough to include future space vehicles and hope to prevent any future debate over what type of vehicle would qualify, so we made a few changes to the definition of "space flight".

Our last recommendation is to include a definition of the phrase "control over which is relinquished at launch" to prevent any debate over the intended meaning of this phrase.

If you would like to discuss our proposed modification, please feel free to contact me at 303-26-5183(direct) or via my email: debra.k.reynolds-clark@ulalaunch.co,



I would like to be included as an interested party along with our outside legal counsel Joseph Vinatieri. We would like to attend the Feb 6 meeting of interested parties.

If you need to contact me via mail my address is:

United Launch Alliance, LLC
c/o Debra Reynolds-Clark
P.O. Box 5076
Centennial, CO 80155

We appreciate your assistance with this matter.

Best Regards,

A handwritten signature in black ink that reads "Debra Reynolds-Clark". The signature is written in a cursive, flowing style.

Debra Reynolds-Clark
Senior Tax Manager

RULE 133. BUSINESS INVENTORY EXEMPTION.

Authority Cited: Section 15606, Government Code.

Reference: Sections 129 and 219, Revenue and Taxation Code.

(a) SCOPE OF EXEMPTION.

(1) "Business inventories" that are eligible for exemption from taxation under Section 129 of the Revenue and Taxation Code include all tangible personal property, whether raw materials, work in process or finished goods, which will become a part of or are themselves items of personalty held for sale or lease in the ordinary course of business.

(A) The phrase "ordinary course of business" does not constitute a limitation on the type of property which may be held for sale or lease, but it does require that the property be intended for sale or lease in accordance with the regular and usual practice and method of the business of the vendor or lessor.

(B) The phrase "goods intended for sale or lease" means property acquired, manufactured, produced, processed, raised or grown which is already the subject of a contract of sale or which is held and openly offered for sale or lease or will be so held and offered for sale or lease at the time it becomes a marketable product. Property which is ready for sale or lease must be displayed, advertised or otherwise brought to the attention of the potential purchasers or lessees by means normally employed by vendors or lessors of the product.

(2) "Business inventories" includes:

(A) Containers or container material such as kegs, bottles, cases, twine and wrapping paper, whether returnable or not, if title thereto will pass to the purchaser or lessee of the product to be sold or leased therein.

(B) New and used oak barrels used in the manufacturing process that physically incorporate the flavor- and aroma-enhancing chemical compounds of the oak into wine or brandy to be sold, when used for this purpose. However, an oak barrel is no longer business inventory once it loses the ability to impart the chemical compounds that enhance the flavor and aroma of the wine or brandy. An "oak barrel" used in the manufacturing process is defined as having a capacity of 212 gallons or less. Oak barrels not used in the manufacturing process but held for sale in the ordinary course of business are also considered business inventory.

(C) Materials such as lumber, cement, nails, steel beams, columns, girders, etc., held by a licensed contractor for incorporation into real property, providing the real property will not be retained for the licensed contractor's use.

(D) Crops and animals held primarily for sale or lease and animals used in the production of food or fiber and feed for animals in either category.

(E) Space flight property listed in the International Traffic in Arms Regulations (22 CFR section 121.1) ~~as a defense article~~ on the United States Munitions List, the control over which is relinquished by the owner upon launch. "Space flight" means any flight of a launch vehicle designed for suborbital, orbital, or interplanetary travel ~~by~~ a-involving any type of space vehicle, satellite, space facility, or space station of any kind.

i) For the purposes of (E) above, the phrase, "control over which is relinquished upon launch", is intended to mean the transfer of control to the Range Safety Officer pursuant to federal law.