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December 20, 2002

TO INTERESTED PARTIES:

*STATE ASSESSMENT MANUAL and UNITARY VALUATION METHODS*

Letter To Assessors 2002/064, dated September 30, 2002, distributed a draft containing proposed changes for an update of the *State Assessment Manual* and *Unitary Valuation Methods*. Interested parties were asked to submit proposed revisions to the updated text in the form of alternative text. Enclosed is a matrix compiled from the comments and suggestions received in response to our September 30, 2002, letter inviting input on the drafts of the *State Assessment Manual* and *Unitary Valuation Methods*.

On January 24, 2003, staff will hold a meeting with interested parties to discuss proposed changes to the *State Assessment Manual* and *Unitary Valuation Methods* as identified on the matrix. The purpose of the meeting is to reach agreement on the final language of the update project. The meeting is scheduled to start at 9:30 a.m. in Room 122, Board of Equalization, 450 N Street, Sacramento.

After the interested parties meeting, the project will proceed as follows:

- Staff will submit an issue paper and other required material for the Property Tax Committee meeting by March 12, 2003.
- The Board's Property Tax Committee will hear discussion of any unresolved issues at its March 26, 2003 meeting.

All documents related to this project are available on the Board's Web site ([www.boe.ca.gov](http://www.boe.ca.gov)) and can be accessed by way of the following links: (1) Property Tax Programs, (2) Property Tax Committee Work Plans, (3) Property Tax Committee Work Plans 2003.

If you plan to attend the January 24, 2003, meeting, please contact Benjamin Tang at (916) 324-2720; e-mail at [benjamin.tang@boe.ca.gov](mailto:benjamin.tang@boe.ca.gov). Thank you for your continued interest in this project.

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:bt  
Enclosure

**State Assessment Manual and Unitary Valuation Methods**  
**ALTERNATIVE LANGUAGE**

No.	PAGE/LINE REFERENCE		SOURCE	STATE ASSESSMENT MANUAL PROPOSED LANGUAGE	SBE STAFF POSITION
1	30	Foot note 33	Pacific Gas & Electric Company, Southern Cal Edison, and Sempra Energy (Industry)	<p><b>Suggestion:</b></p> <p>Footnote 33 (ref. Allocation) should include <i>fuel</i> along with Materials and Supplies and land as items directly assigned at situs and deducted from the total unit value before values are allocated.</p>	<p><b>Accepted.</b> Revise as follows: We have eliminated one slight complication. "<u>Fuel,</u>" and "<u>M</u>aterials and supplies" are typically directly deducted from the assessee's total unit value and allocated to each county by situs based on their full reported cost. The "net unit value" referred to above is thus actually the total California unit value less the value of unitary land <del>less the value of</del> <u>and</u> deducted <u>fuel, and</u> materials and supplies. The amount of <u>fuel, and</u> materials and supplies is generally not significant relative to the total allocated value.</p>
No.	PAGE/LINE REFERENCE		SOURCE	UNITARY VALUATION METHODS PROPOSED LANGUAGE	SBE STAFF POSITION
2	8	24 & 25	Industry	<p><b>Comment:</b></p> <p>An ad valorem tax rate component should be included in the derivation of the capitalization rate for possessory interest throughout the Unitary Valuation Methods Book. In accordance with AH 510 and property tax rules 8(f) and 21, an allowance for property taxes should be provided by adding an ad valorem tax component to the capitalization rate. Exclusion of an ad valorem tax component is inconsistent with these property tax rules. Thus, no changes should be made to the Unitary Valuation Methods Book for possessory interest computations.</p>	<p><b>Not accepted.</b> Pursuant to the AH 510 (adopted by the Board 12/2002), a property tax component should be added to the capitalization rate only if property taxes will be paid out of the income to be capitalized. Conversely, if property taxes will not be paid out of the income to be capitalized, a property tax component should not be added to the capitalization rate. In general, the property taxes on the value of unitary possessory interests are paid by the possessor in addition to rent, not paid out of the rent (income) to be capitalized. Therefore, the example in the Unitary Valuation Methods book does not include a tax component.</p>