

CALIFORNIA STATE BOARD OF EQUALIZATION
SUMMARY DECISION

In the Matter of the Petition for
Reassessment of the 2020 Nonunitary Value for:)

GATX CORPORATION (0503)

Petitioner

Appeal No.: SAN 20-001

Case ID No.: 1064217

Oral Hearing Date:
December 16, 2020¹

Representing the Parties:

For the Petitioner:

Robert Federico, Authorized Agent
Grant Thornton, LLP

For the Respondent:

Richard Moon, Tax Counsel IV
Attorney for State-Assessed Properties Division

Mike Harris,
Business Taxes Administrator III
State-Assessed Properties Division

Appeals Attorney:

Sarah J. Garrett, Tax Counsel III (Specialist)

VALUES AT ISSUE²

	Value	Penalty	Total
2020 Board-Adopted Assessed Value	\$8,147,272	\$0	\$8,147,272
Petitioner's Requested Value	\$3,400,000	\$0	\$3,400,000
Petitioner's Revised Requested Value	\$4,662,000	\$0	\$4,662,000
Respondent's Appeal Recommendation	\$7,463,433	\$0	\$7,463,433 ³

¹ The Board voted unanimously to grant the consolidated petition for reassessment, in part, and reduced the 2020 Board-adopted nonunitary value from \$8,147,272 to \$7,463,433.

² Due to the Federal Railroad Revitalization and Regulation Reform Act (4-R Act), rail transportation property is assessed at 59.79 percent of market value for the 2020-21 roll, consistent with the Board's adoption of the ratio on May 27, 2020.

³ Similarly, the nonunitary assessed value recommended, and adopted by the Board, reflects the inclusion of the 4-R Act adjustment.

Factual Background

GATX Corporation (GATX or Petitioner) is a railcar leasing company, headquartered in Chicago, Illinois since its founding in 1898. In California, GATX owns a tank and railcar maintenance and repair facility located at 20878 Slover Avenue in Colton, California. This facility was originally built in 1948 and is 72 years old.

Petitioner's 2020 Board-adopted value is based on 100 percent reliance on Reproduction Cost Less Depreciation (ReproCLD) indicator of value, except for the land, which was valued based on the Sales approach to value. The 2020 Board-adopted value reflects 59.79 percent of the calculated market value set by the Board, conforming to the Federal Railroad Revitalization and Regulation Reform Act (4-R Act).

Legal Issue 1: Whether Petitioner Has Shown That Respondent Erred in Calculating the ReproCN and Depreciation Within the State Assessed Properties Division's (SAPD's or Respondent's) ReproCLD Value Indicator.

Findings of Fact and Related Contentions

Petitioner asserts that Respondent's ReproCN is overstated and that the calculation within its submitted appraisal report is more appropriate. Petitioner's appraisal utilizes trend factors sourced from the California Assessors Association's Position Paper 20-001, adjusted for physical deterioration and obsolescence by applying percent good factors sourced from Assessors' Handbook, section 581 (AH 581), and applying the maximum equipment age factor of 125 percent. Petitioner submits their appraisal has more correctly approximated its ReproCN.

Respondent contends it calculated the ReproCLD value indicator, and the ReproCN, consistent with relevant appraisal guidance and Property Tax Rule 6.⁴ First, Respondent calculated the ReproCN by applying an index factor (also known as a "trend factor") to the historical acquisition cost of the property, segregated by year of acquisition, where the index factors applicable to Petitioner's property were sourced from the 2020 ReproCN trend factor study published by the Board. Then, Respondent adjusted the ReproCN for all forms of depreciation, by applying percent good factors developed by the

⁴ References to "Property Tax Rules" or "Rule(s)" are to sections of title 18 of the California Code of Regulations.

1 SAPD. Finally, Respondent did not apply the 125 percent maximum age factor, noting that this age
2 factor is not a concept that is mandatory or appropriate in every instance, as it depends upon the
3 specific nature of the assets at issue. In response to the issue raised in the Petition, Respondent asserts
4 the submitted appraisal uses incorrect index factors and percent good factors that are not appropriate for
5 tank and railcar maintenance and repair property, in addition to inappropriately applying the 125
6 percent maximum age factor to all of Petitioner's assets. For these reasons, Respondent recommends no
7 adjustment be made for this issue.

8 At the Appeals Conference held on November 16, 2020, the parties renewed their contentions.
9 Petitioner maintained that their ReproCN calculation was more accurate than Respondent's overstated
10 ReproCN. Additionally, while Petitioner's representative and appraiser acknowledged that the 125
11 percent maximum age factor was not in fact a "rule," Petitioner maintained that its usage was
12 appropriate for Petitioner's property. Respondent reaffirmed that various data sources go in to the
13 preparation of the Board's annual ReproCN factor study, many of which are more specific sources more
14 appropriate for Petitioner's type of property, railcar maintenance and storage, instead of a generalized
15 commercial property factor table that would also cover average retail stores across the state.
16 Accordingly, Respondent reaffirmed that it does not recommend any adjustment be made to Petitioner's
17 ReproCN calculation.

18 Applicable Law and Appraisal Principles

19 Burden of Proof

20 Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)
21 The Board has promulgated the Rules for Tax Appeals (RTA) to govern the administrative and
22 appellate review processes for all of the tax programs administered by the Board. (Cal. Code Regs., tit.
23 18, § 5000.) Of relevance here, RTA 5541, subdivision (a), places the burden of proof upon the
24 taxpayer as to all issues of fact except as otherwise specifically provided by law. Courts have long
25 presumed that the Board assesses all property correctly, placing on the taxpayer the burden of proving
26 that an assessment is incorrect. (Trailer Train Co. v. State Bd. of Equalization (1986) 180 Cal.App.3d
27 565, 584.) Therefore, petitioner bears the burden of showing that the assessment is illegal. (ITT World
28 Communications v. Santa Clara County (1980) 101 Cal.App.3d 246.)

Reproduction Cost New

The Reproduction Cost New (ReproCN) is an estimate of the current cost to replace a property with an *exact replica*, or virtually so, of the existing property, which should include all economic costs necessary to put the property to productive and beneficial use. The ReproCN is calculated by applying an index factor, which is acquired from industry data, to the historical acquisition cost of the property of the assessee, segregated by year of acquisition. The use of index factors applied to historical cost data is the preferred method of calculating the ReproCN. The ReproCN is then adjusted for normal depreciation by the application of a percent good factor. (*UVM*, p. 11.)

Depreciation and the Reproduction Cost Approach

In general, the ReproCLD value indicator recognizes three types of depreciation: physical deterioration, functional obsolescence, and external or economic obsolescence, through application of the Board's "percent" good factors. Obsolescence may occur when property is outmoded (functional obsolescence) or when some event has substantially diminished the future earning power of the property (economic obsolescence). (*See Assessors' Handbook* section 501, *Basic Appraisal* (January 2002), pp. 81-83.) Functional obsolescence is the loss of value in a property caused by the property's loss of capacity to perform the function for which it was intended. (*Id.* at p. 81.) Economic obsolescence is the diminished utility of a property due to adverse factors external to the property being appraised and is incurable by the property owner. (*Id.* at p. 82.)

The percent good factors, the basis for adjusting the ReproCN into an indicator of fair market value, are used to determine the remaining value of a property and are complements of physical deterioration and functional obsolescence. The factors used for a given property type are based on the expected economic life of that property type which is based on a service life study that surveys industry participants who own that type of property. (*UVM*, p. 11.)

Analysis and Disposition

Respondent is presumed to have correctly determined the value of the property at issue, and Petitioner bears the burden of proving otherwise. Here, Petitioner contends that Respondent's calculated ReproCN is overstated, and that Respondent should instead adopt the ReproCN within Petitioner's submitted appraisal to calculate their ReproCLD value indicator. However, we find Petitioner has

provided no evidence or argument to show that Respondent erred in its calculation of the ReproCN. Further, we find that the submitted appraisal is not a valid starting point for a reliable fair market value determination, as it differs from the asset data submitted in Petitioner's 2020 Property Statement without substantiation, as discussed further in Legal Issue 3. Accordingly, we find that Petitioner has not presented sufficient evidence to meet the burden of proof to overcome the presumption that Respondent properly calculated the ReproCN, and, therefore, Respondent's calculated ReproCN as used within the ReproCLD value indicator is affirmed as correct.

Legal Issue 2: Whether Petitioner Has Shown That Respondent Failed to Account for All Obsolescence in Petitioner's 2020 Board Adopted Value.

Findings of Fact and Related Contentions

Petitioner's submitted appraisal asserts there is additional economic obsolescence that has not been recognized in Respondent's ReproCLD value indicator. In adjusting for economic obsolescence, the appraisal utilizes the Federal Reserve's "Industrial Production and Capacity Utilization Table-G.17," Q4 2019's capacity utilization of 75 percent and a scale factor of 0.7 to calculate an inutility adjustment of 18.24 percent. Petitioner asserts the Federal capacity data is an appropriate basis for the requested inutility adjustment and that the scale factor utilized was based on an average of typical factors used in the industry (.06-.08). In the appraisal, the "inutility penalty" is applied to Petitioner's "improvements" and "personal property." In addition to the appraisal's obsolescence calculation, Petitioner generally cites to market conditions it faces, stating that its business is tied to US freight volumes, the industrial production index (IPI), US oil and gas production index, external competition in the rail transportation industry, and total trade value; which indicate slow industry growth over the next 5 years. For these reasons, Petitioner asserts further economic obsolescence adjustment is necessary.

Respondent contends a further obsolescence adjustment based on Petitioner's submitted calculation would be inappropriate for several reasons. First, Respondent contends that Petitioner's inutility calculation is objectively inappropriate and fails to provide any explanation as to why such an adjustment is appropriate for Petitioner's property, much of which has already been reduced to salvage value. Second, Respondent contends Petitioner's use of the capacity factory is not appropriate or specific to the actual capacity or use of Petitioner's property, as the Federal Reserve table utilized

1 indicates the data is applicable to manufacturing, mining, and electric and gas utilities across the entire
2 United States. Third, Respondent contends the appropriate methodology to substantiate additional
3 obsolescence by estimating inutility would be to determine the actual or predicted use and the rated or
4 expected capacity of the property, consistent with Board guidance,⁵ to determine whether an inutility
5 adjustment is needed. Finally, Respondent contends the scale factor selected must be applicable to the
6 property in question and will depend on the underlying type of equipment and labor/material ratios,
7 consistent with Board Guidance.⁶ Respondent also noted at the appeals conference that scale factors are
8 typically much lower. Based on these reasons, Respondent contends that Petitioner's appraisal
9 calculation is inappropriate and does not take into account much of Petitioner's property already being
10 valued at salvage value; instead, Respondent maintains that its ReproCLD value indicator calculation
11 accurately values Petitioner's Property and no further adjustment is warranted.

12 At the Appeals Conference on November 16, 2020, the parties renewed their contentions.
13 Petitioner explained the approach taken in its submitted appraisal and confirmed a 0.7 scale factor was
14 used within its requested inutility calculation, based on an average of typical factors used in the industry
15 (.06-.08). Petitioner reasserted that it viewed the Federal Reserve data as an appropriate basis for an
16 inutility adjustment. Petitioner also generally cited the "oil implosion" that has occurred from 2017 to
17 present was generally affecting the value and utilization of its property. Respondent reasserted that
18 applying an inutility adjustment lacked support and a specific relationship to Petitioner's facility's actual
19 capacity or use. Respondent also contended that for state assessed property, scale factors are typically
20 much lower. Respondent concluded by reaffirming its view that no further adjustment is warranted.

21 Applicable Law and Appraisal Principles

22 Please see Applicable Law and Appraisal Principles under Legal Issue 1, above.

23 Analysis and Disposition

24 Respondent is presumed to have correctly determined the value of the property at issue, and
25 Petitioner bears the burden of proving otherwise. Here, Petitioner contends that Respondent's
26

27
28 ⁵ Respondent cites to *Guidelines for Substantiating Additional Obsolescence for State-Assessed Telecommunication's Properties (Guidelines)*, p. 4.

⁶ *Guidelines*, p. 5.

1 ReproCLD value indicator does not recognize all obsolescence present within Petitioner's property, as
2 supported by Petitioner's inutility calculation based on Federal Reserve capacity data and utilizing an
3 "average" .07 scale factor. However, we find Petitioner has provided no evidence or argument to show
4 that Respondent erred in its calculation of obsolescence within the ReproCLD or to substantiate the
5 existence of additional obsolescence, as required by Property Tax Rule 6 and Board guidance.
6 Accordingly, we find that Petitioner has not presented sufficient evidence to meet the burden of proof to
7 overcome the presumption that Respondent properly calculated the amount of obsolescence within the
8 ReproCLD value indicator, and, thus, Respondent's ReproCLD value indicator is affirmed as correct.

9 **Legal Issue 3: Whether Petitioner Has Shown That Respondent Overstated Asset Costs Reported**
10 **in Petitioner's 2020 Property Statement Causing an Overassessment.**

11 **Findings of Fact and Related Contentions**

12 Petitioner's submitted appraisal appears to assert Respondent has overstated the value of assets
13 reported on Petitioner's 2020 Property Statement, resulting in an overassessment. Specifically,
14 Petitioner's appraisal excludes several assets from the total value asserted by applying an asset cost of
15 zero to specified assets, citing unrecorded asset retirements/disposal costs that had not been reflected in
16 Petitioner's 2020 Property Statement. (Petitioner's Exhibit 3, Tab "Asset Listing," Column AH
17 "Unrecorded Retirement" and "Excluded Assets"). Further, a number of spur track assets appear to be
18 valued in an alternative methodology, using a "Direct RCN" calculation. Petitioner asserts Respondent
19 should adjust its ReproCLD calculation to account for these asset retirements and the spur track assets'
20 overstatement of value.

21 Respondent contends no documentation or evidence to support its claim for asset retirements
22 has been provided. Respondent notes supporting evidence would be corrected financial records as
23 evidence (e.g. balance sheets, adjusting journal entries, a reconciliation schedule of fixed assets to their
24 general ledgers, and/or a copy of Petitioner's 2019 income tax return, including form 4797 Sales of
25 Business Property). Respondent contends no adjustment can be made without evidence that such assets
26 were, in fact, retired, particularly in light of the fact that Petitioner reported such assets as in use within
27 its 2020 Property Statement filing.
28

1 In terms of the spur track assets, Respondent began with the Petitioner's reported asset data
2 (Annual Property Statement, supporting schedules, etc.). Respondent calculated the values of the spur
3 track assets in two ways, a ReproCLD value based off of Petitioner's reported asset data and a cost
4 approach utilizing Marshall & Swift cost data, the latter of which was actually used. Respondent
5 contends Petitioner has not sourced its requested "Direct RCN" calculation, nor has Petitioner provided
6 any evidence or argument to support its contention that the "Direct RCN" calculation is more reliable
7 than Respondent's calculation. Accordingly, Respondent recommends no adjustment be made for this
8 issue.

9 **Applicable Law and Appraisal Principles**

10 **Burden of Proof**

11 Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)
12 The Board has promulgated the Rules for Tax Appeals (RTA) to govern the administrative and
13 appellate review processes for all of the tax programs administered by the Board. (Cal. Code Regs., tit.
14 18, § 5000.) Of relevance here, RTA 5541, subdivision (a), places the burden of proof upon the
15 taxpayer as to all issues of fact except as otherwise specifically provided by law. Courts have long
16 presumed that the Board assesses all property correctly, placing on the taxpayer the burden of proving
17 that an assessment is incorrect. (Trailer Train Co. v. State Bd. of Equalization (1986) 180 Cal.App.3d
18 565, 584.) Therefore, petitioner bears the burden of showing that the assessment is illegal. (ITT World
19 Communications v. Santa Clara County (1980) 101 Cal.App.3d 246.)

20 **Analysis and Disposition**

21 Respondent is presumed to have correctly determined the value of the property at issue, and
22 Petitioner bears the burden of proving otherwise. Here, Petitioner contends that Respondent's
23 ReproCLD value indicator includes retired assets and assets that are overvalued. Specifically,
24 Petitioner asserts their "Direct RCN" calculation should be used to value the spur track assets instead.
25 However, Petitioner has provided no evidence to support the existence of retired assets within
26 Petitioner's 2020 Board-adopted nonunitary value. Consistent with our determination in Legal Issue 1,
27 we find that the submitted appraisal is not a valid starting point for a reliable fair market value
28 determination, as it differs from the asset data submitted in Petitioner's 2020 Property Statement

1 without evidentiary substantiation. Further, we find Respondent appropriately calculated the value of
2 the spur track assets, using Marshall & Swift cost data. Accordingly, we find that Petitioner has not
3 presented sufficient evidence to meet the burden of proof to overcome the presumption that Respondent
4 properly calculated the value of Petitioner's assets, and, therefore, Respondent's calculated value
5 indicator is affirmed as correct.

6 **Legal Issue 4: Whether the Petitioner has Shown the Penalty Applied to Petitioner's Assessment**
7 **Should be Abated.**

8 **Findings of Fact and Related Contentions**

9 Petitioner filed its 2020 property statement after the timely filing deadline of March 1, 2020. As
10 required by Revenue and Taxation Code section 830, Respondent assessed a penalty of \$683,839.
11 However, this penalty was inadvertently processed and reflected as a part of the 2020 Board-adopted
12 value, instead of being separately identified as a penalty assessment. Respondent acknowledges that the
13 penalty was not identifiable due to this processing error and as such, Petitioner may not have been
14 aware of the penalty assessment. Accordingly, while Petitioner filed a petition appealing their
15 nonunitary value, Petitioner had no opportunity to file to abate the penalty due to the processing error.
16 Respondent and Petitioner agree that the penalty amount of \$683,839 is reasonable to abate given the
17 context of the processing error and the particular circumstances of COVID-19.

18 **Applicable Law and Appraisal Principles**

19 **Burden of Proof**

20 Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)
21 The Board has promulgated the Rules for Tax Appeals (RTA) to govern the administrative and
22 appellate review processes for all of the tax programs administered by the Board. (Cal. Code Regs., tit.
23 18, § 5000.) Of relevance here, RTA 5541, subdivision (a), places the burden of proof upon the
24 taxpayer as to all issues of fact except as otherwise specifically provided by law. Courts have long
25 presumed that the Board assesses all property correctly, placing on the taxpayer the burden of proving
26 that an assessment is incorrect. (Trailer Train Co. v. State Bd. of Equalization (1986) 180 Cal.App.3d
27 565, 584.) Therefore, petitioner bears the burden of showing that the assessment is illegal. (ITT World
28 Communications v. Santa Clara County (1980) 101 Cal.App.3d 246.)

Revenue and Taxation Code Section 830

Revenue and Taxation Code section 830, subdivision (c) requires that a 10-percent penalty be added to the full value of an assessment if an assessee “fails to file the property statement, in whole or in part, by March 1....” Revenue and Taxation Code section 830, subdivision (f) provides, in pertinent part, that the penalty may be abated, in whole or in part, by the Board “[i]f the assessee establishes to the satisfaction of the board that the failure to file the property statements or any of its parts within the time required by this section was due to reasonable cause and occurred notwithstanding the exercise of ordinary care and the absence of willful neglect...”

Analysis and Disposition

We find that Petitioner established reasonable cause for an abatement of the penalty by showing that it exercised ordinary business care and prudence but was unable to file a timely property statement and that it was unable to timely file a property tax petition on the penalty amount due to the context of the penalty processing error.

Decision

Accordingly, the petition for reassessment is granted, in part, and the 2020 Board-adopted nonunitary value is reduced from \$8,147,272 to \$7,463,433.*

Antonio Vazquez, Chairman

Mike Schaefer, Vice Chair

Ted Gaines, Member

Malia M. Cohen, Member

Betty T. Yee, Controller

* The decision was rendered in Sacramento, California on December 16, 2020. This summary decision document was approved on February 23, 2021, in Sacramento, California.