



California State
Board *of* Equalization

Presentation on State Assessee Industry Trends



Objective and Overview

- Provide Board with update on trends affecting value for each industry group
- SAPD determines market value of assessee's taxable property, not the value of the assessee's business
- While SAPD monitors industry trends, SAPD has no role in policy or regulation



Monitoring Industry Trends

- Collaboration with state assessees
 - Meet annually with most larger state assessees
 - Informal communications throughout the year
- Industry Publications
 - Trade magazines, journals, etc.
 - Appraisal newsletters
- Regulatory Agencies
 - CPUC, FERC, STB
- WSATA

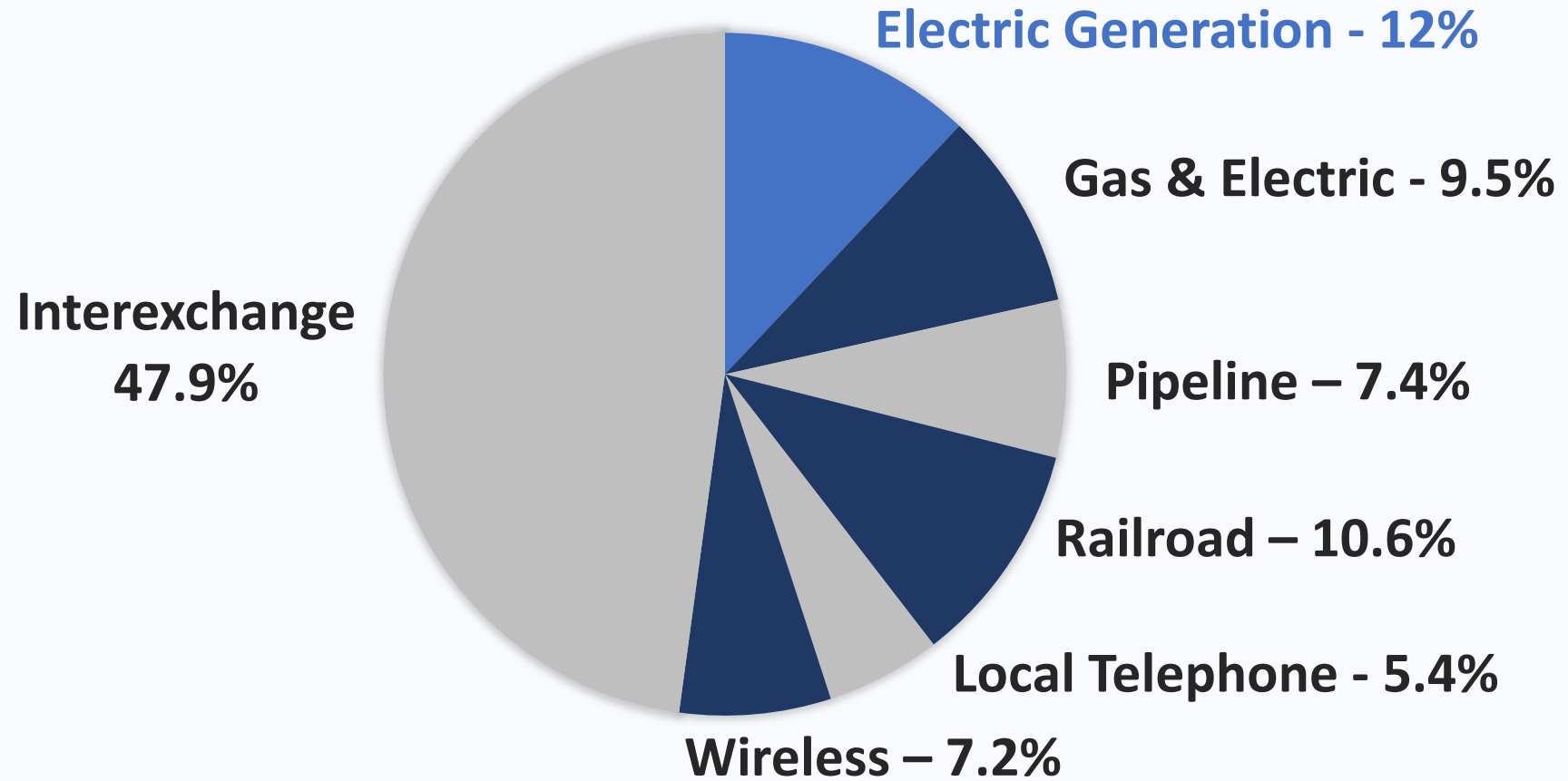


Affect on Value

- Not all trends have a direct affect on value
 - Certain trends or issues may change market conditions or provide indication of an industry's general economic direction, but may not have a direct affect on a specific assessee's value of taxable property
- Value Indicators
 - Depending on the type of value indicator used (cost approach, income approach), an industry trend may have more of a direct impact
- Not always easy to quantify a trend's impact on taxable value of an assessee's property

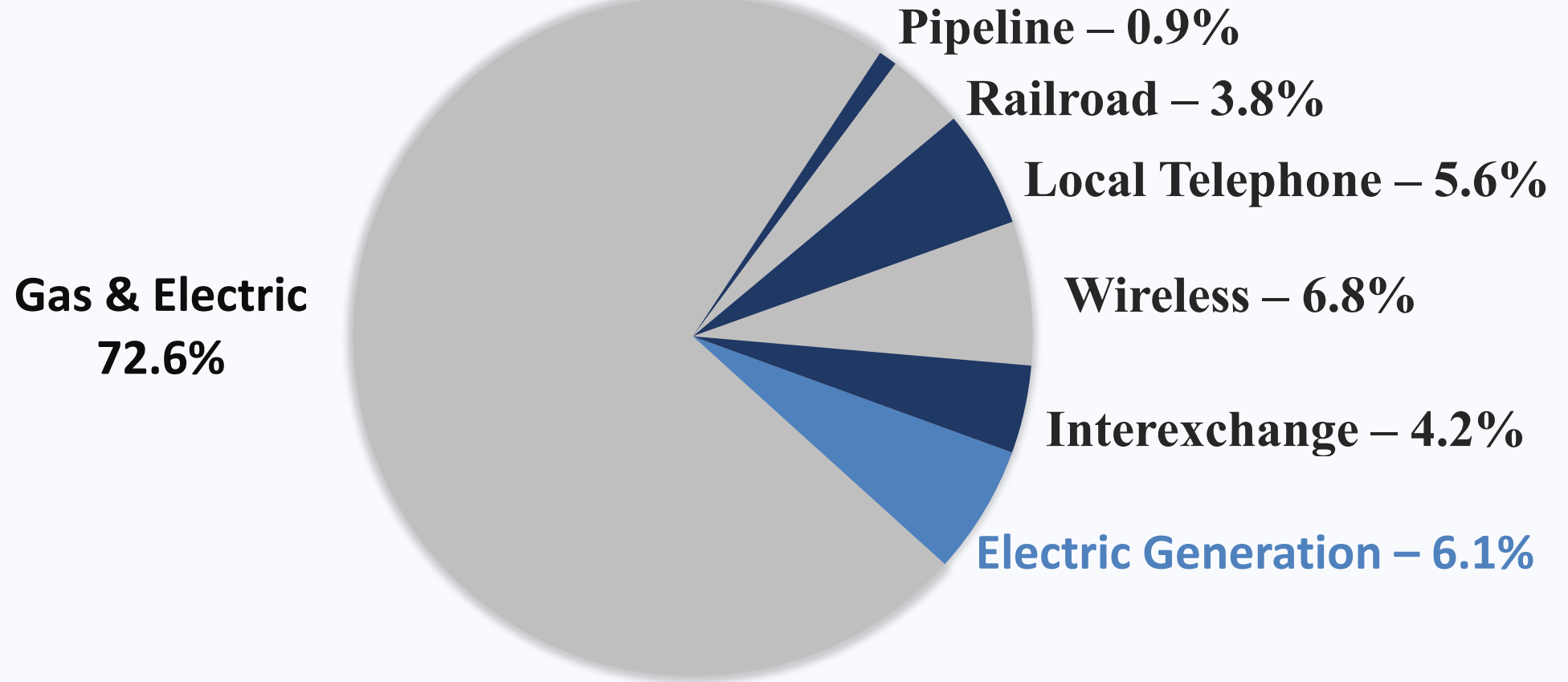


ELECTRIC GENERATION – NUMBER OF ASSESSEES





ELECTRIC GENERATION – TOTAL 2021 VALUE





Electric Generation – Value Indicators

- Replacement Cost New Less Depreciation (ReplCND) – cost approach
- Capitalized Earning Ability (CEA) – income approach
- Sales Indicator – sales approach

For new and old facilities, it is important to consider the age of the facility and length of contract when determining use of these value indicators for this industry.

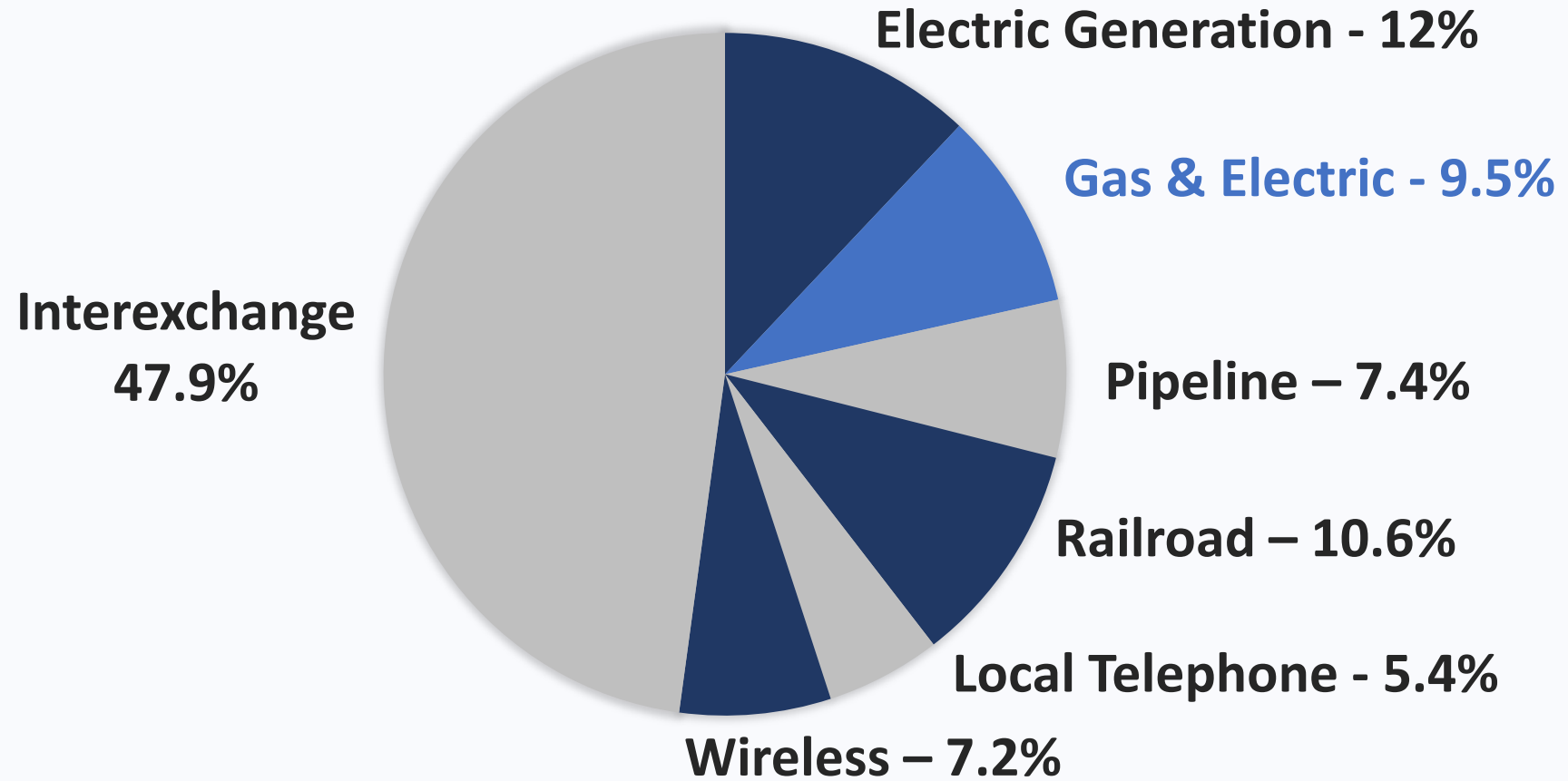


Electric Generation – Industry Trends

- Rising Natural Gas Prices
 - Largest fuel source for electricity generation
- Nuclear Plant Shut Down
 - Need to replace lost nuclear capacity
- Renewable Energy
- Once-Through Cooling (OTC)

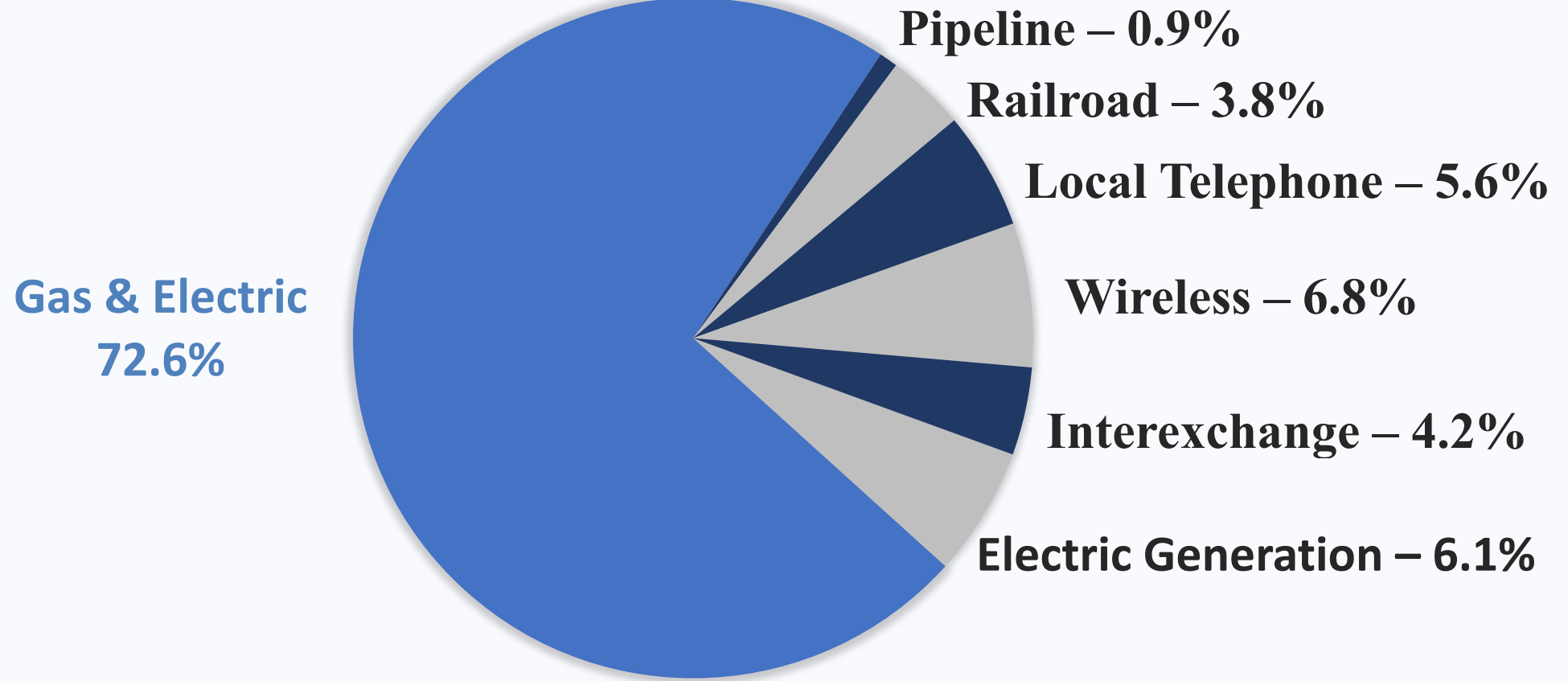


GAS & ELECTRIC – NUMBER OF ASSESSEES





GAS & ELECTRIC – TOTAL 2021 VALUE





Gas & Electric – Value Indicators

- Investor-Owned Utilities:
 - Historical Cost Less Depreciation (HCLD) – cost approach
 - Capitalized Earning Ability (CEA) – Perpetual – income approach
- Electric Cooperatives and Gas Transmission:
 - Primarily Historical Cost Less Depreciation (HCLD) – cost approach
 - Some consideration for Capitalized Earning Ability (CEA) – income approach
- Gas Storage:
 - Reproduction Cost Less Depreciation (ReproCLD) – cost approach
 - Capitalized Earning Ability (CEA) – income approach

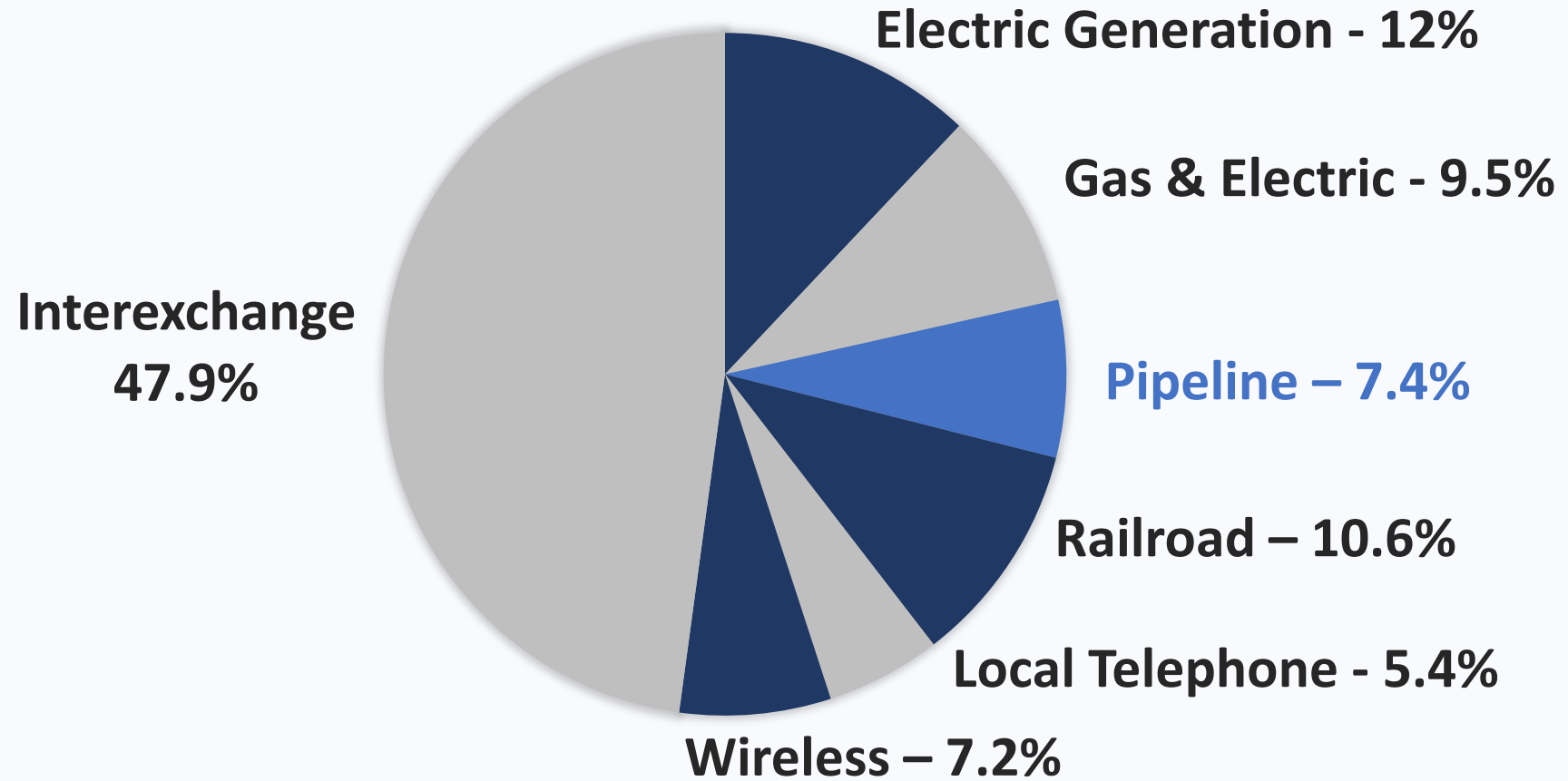


Gas & Electric – Industry Trends

- Significant growth in capital expenditures
 - Large investments in renewable energy
 - New assets/property replacing older assets/property
- Wildfire/Climate Change Issue
 - SAPD continues to monitor developments
 - AB 1054 and CPUC decisions remain best sources to quantify adjustments

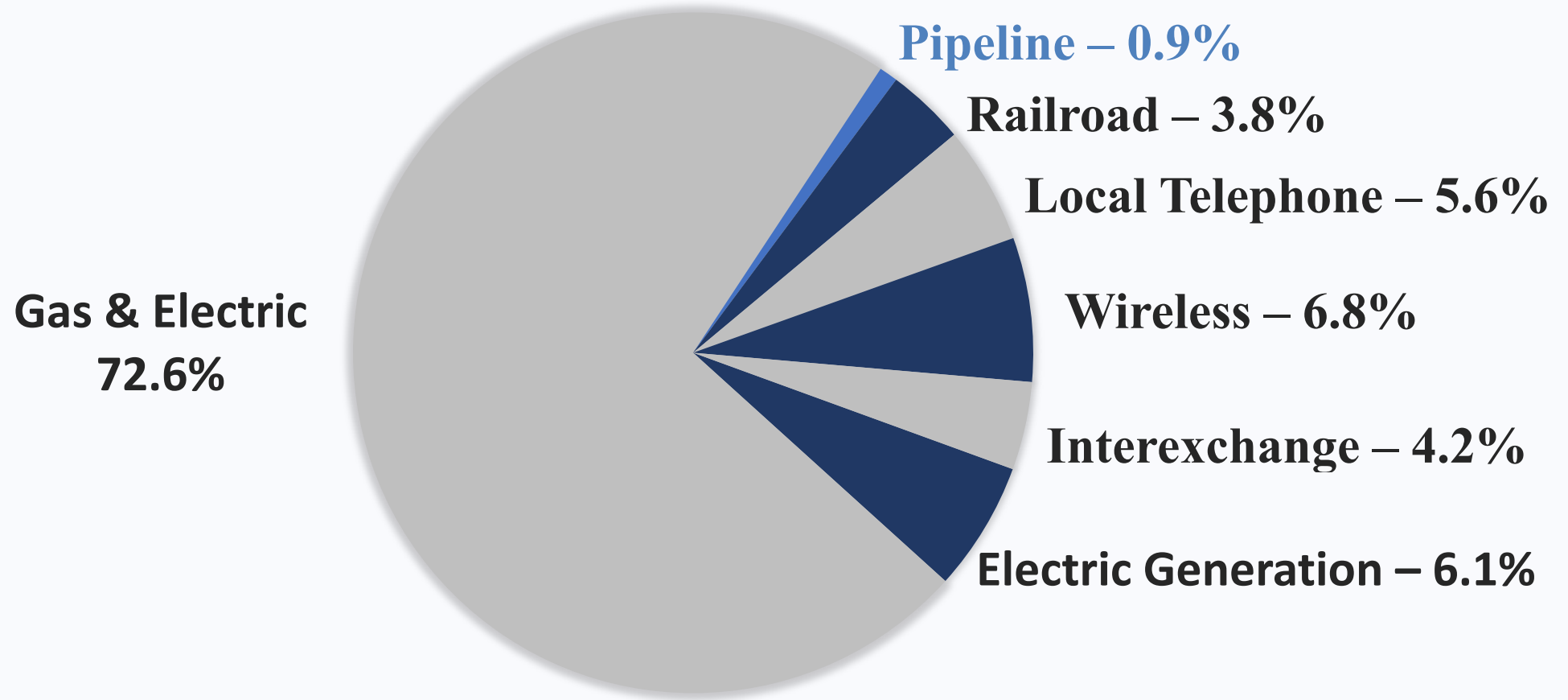


PIPELINES – NUMBER OF ASSESSEES





PIPELINES – TOTAL 2021 VALUE





Pipeline – Value Indicators

- Common Carrier Pipelines
 - Reproduction Cost Less Depreciation (ReproCLD) – cost approach
 - Historical Cost Less Depreciation (HCLD) – cost approach
 - Capitalized Earning Ability (CEA) – income approach
- Nonregulated Natural Gas Transmission Pipelines
 - Reproduction Cost Less Depreciation (ReproCLD) – cost approach
- Noncommon Carrier Pipelines
 - Reproduction Cost Less Depreciation (ReproCLD) – cost approach

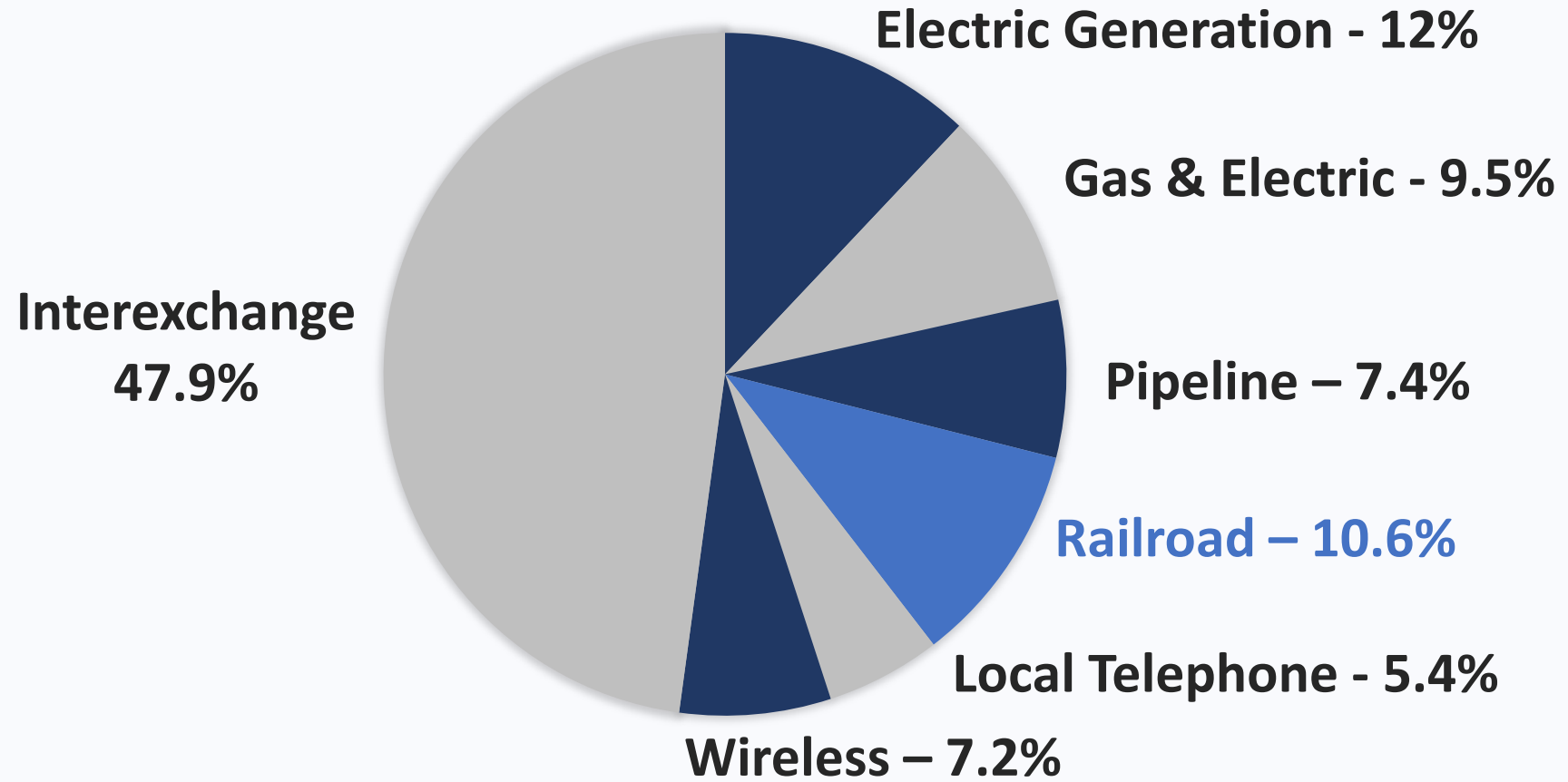


Pipeline – Industry Trends

- Covid-19 impact on oil and natural gas industries
 - Decrease demand
- Decarbonization
 - General trend away from fossil fuels
- Industry consolidation
 - Resulting in fewer pipeline operators

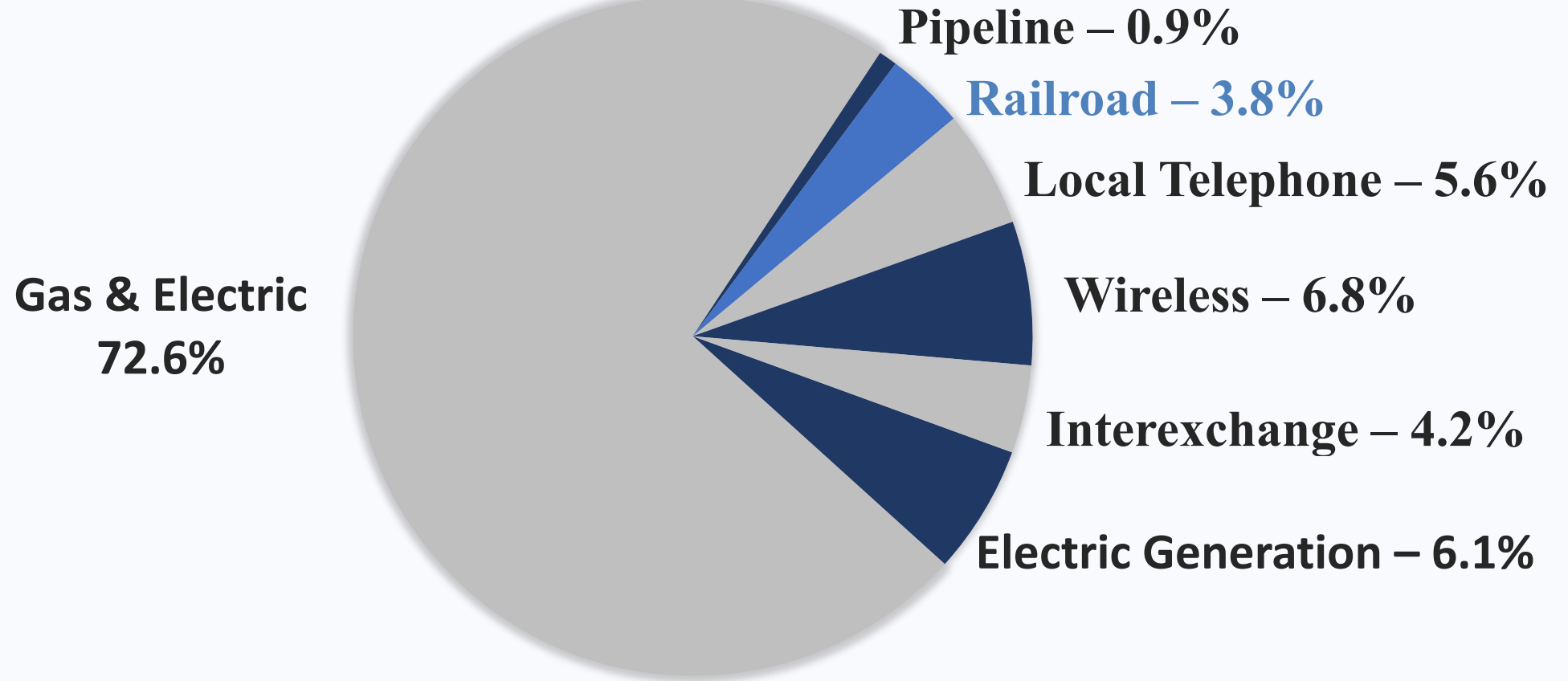


RAILROAD – NUMBER OF ASSESSEES





RAILROAD – TOTAL 2021 VALUE





Railroad – Value Indicators

- Class 1 Railroads:
 - Capitalized Earning Ability (CEA) – Perpetual – income approach
- Shortline Railroads:
 - Capitalized Earning Ability (CEA) – Perpetual – income approach
 - Salvage (Net Liquidation) – income approach
 - Used when highest and best use of property is to disassemble and sell component parts of the railroad

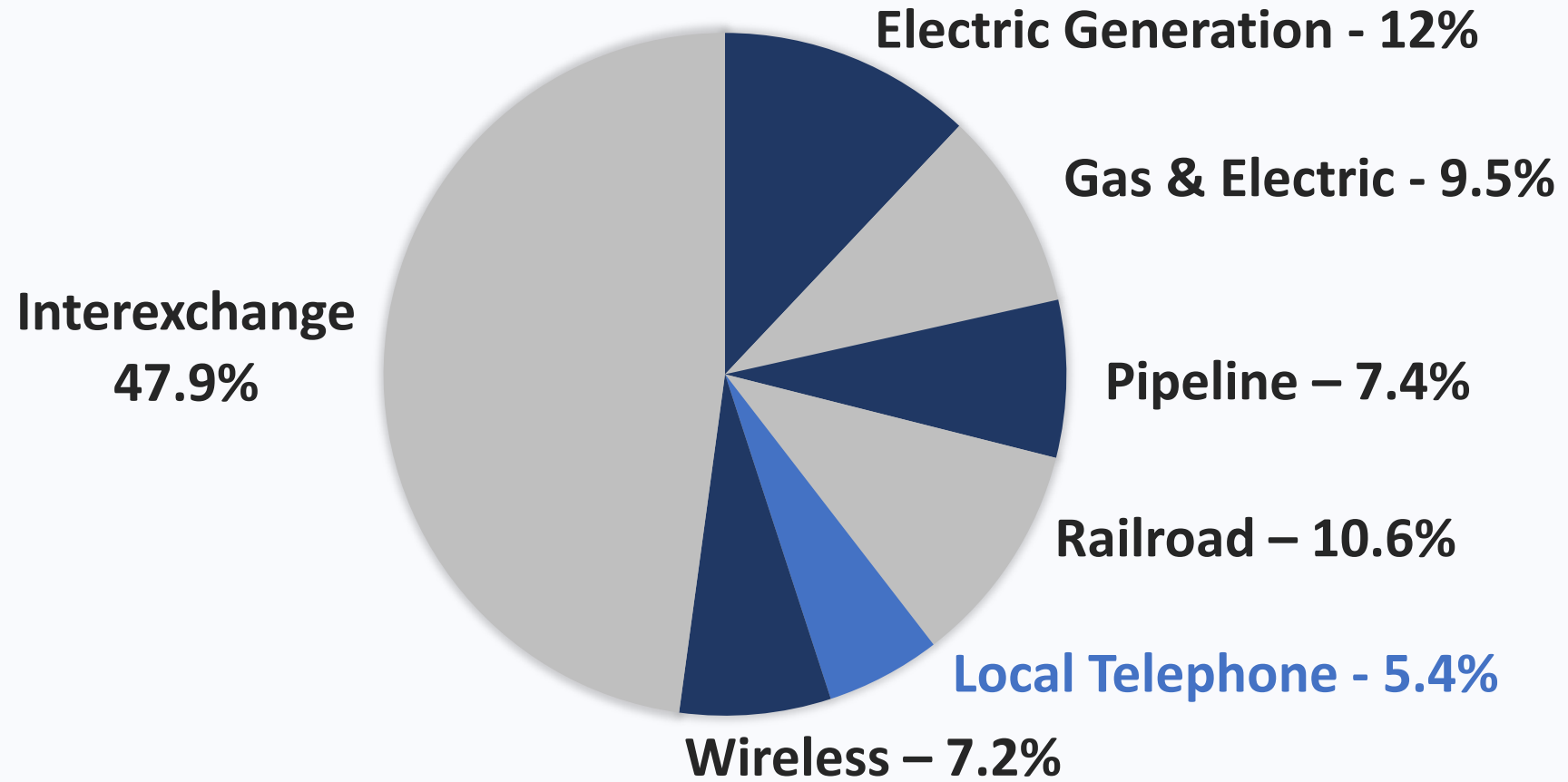


Railroad – Industry Trends

- The 4-R Act Ratio
 - Ratio decreasing in recent years
- Covid-19 impact of excursion/passenger railroad companies
- Supply chain constraints
 - Slows ability to move freight timely
- Increase operating costs/expenses:
 - Theft of cargo/freight
 - Labor shortage
- California wildfires

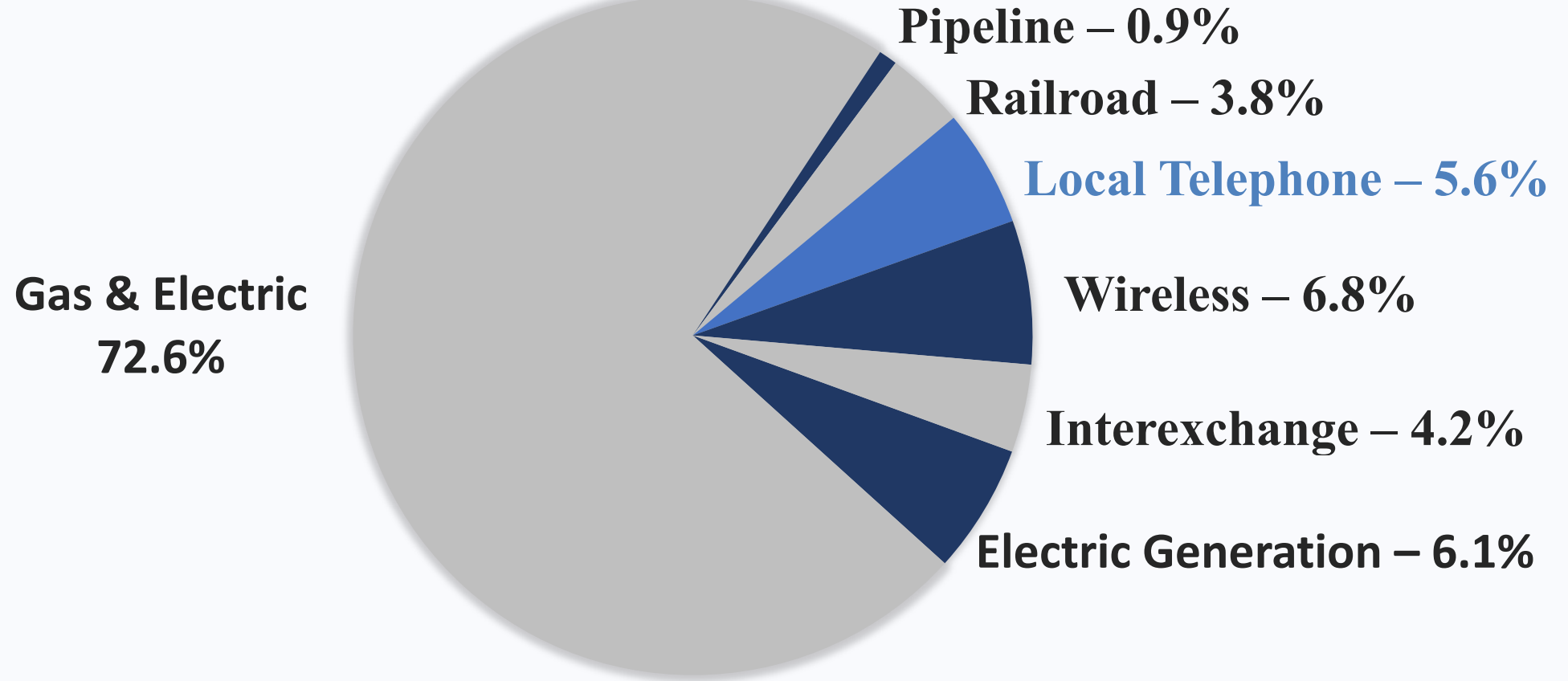


LOCAL TELEPHONE – NUMBER OF ASSESSEES





LOCAL TELEPHONE – TOTAL 2021 VALUE





Local Telephone – Value Indicators

- Traditional Landline companies:
 - Historical Cost Less Depreciation (HCLD) – cost approach
- Larger Local Exchange companies:
 - Replacement Cost Less Depreciation (ReplCLD) – cost approach
 - Capitalized Earning Ability (CEA) – income approach

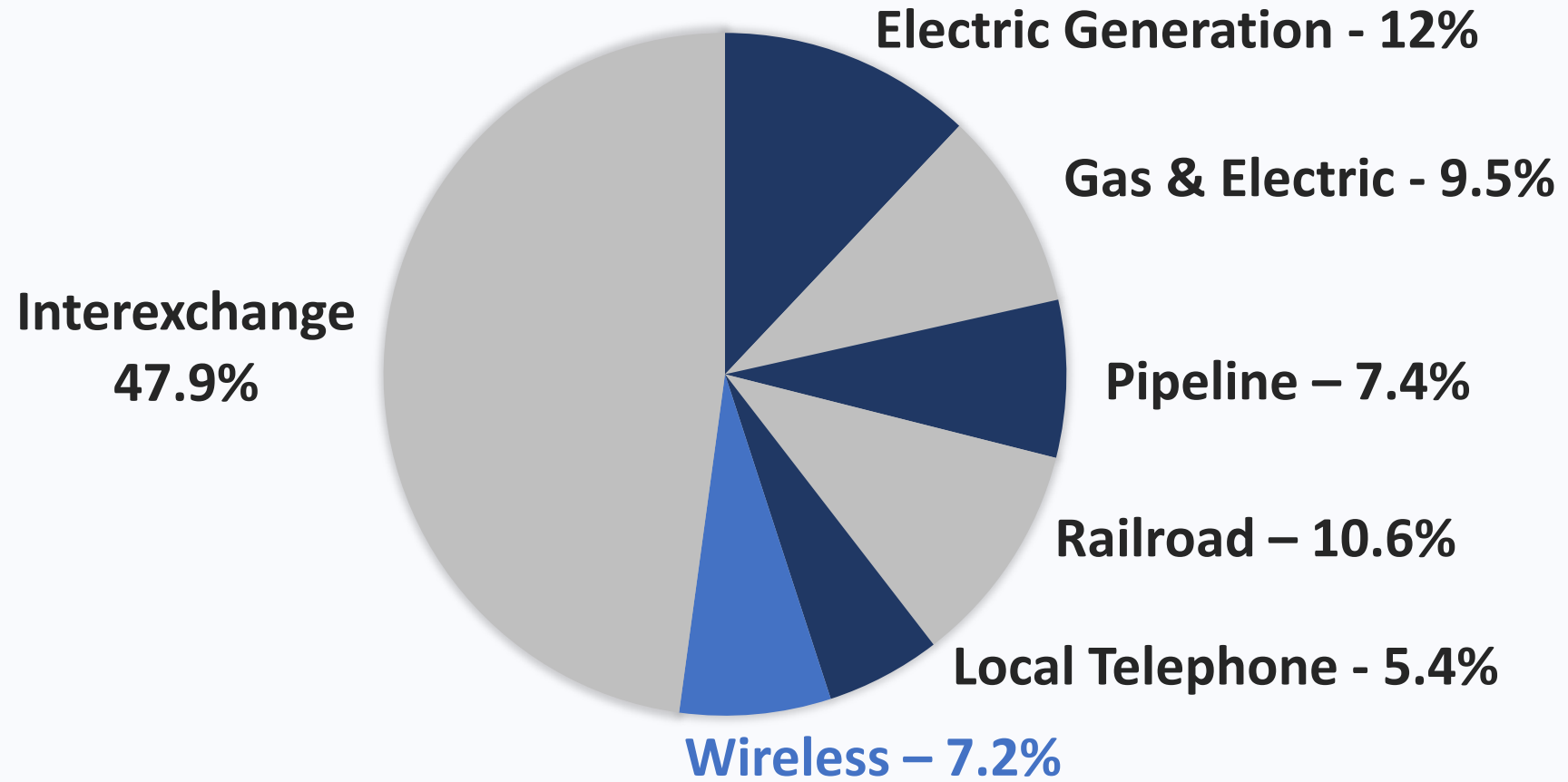


Local Telephone – Industry Trends

- Traditional wireline business is eroding:
 - Fewer wireline (landline) customers
 - Continued loss of revenue
 - Reduction of workforce

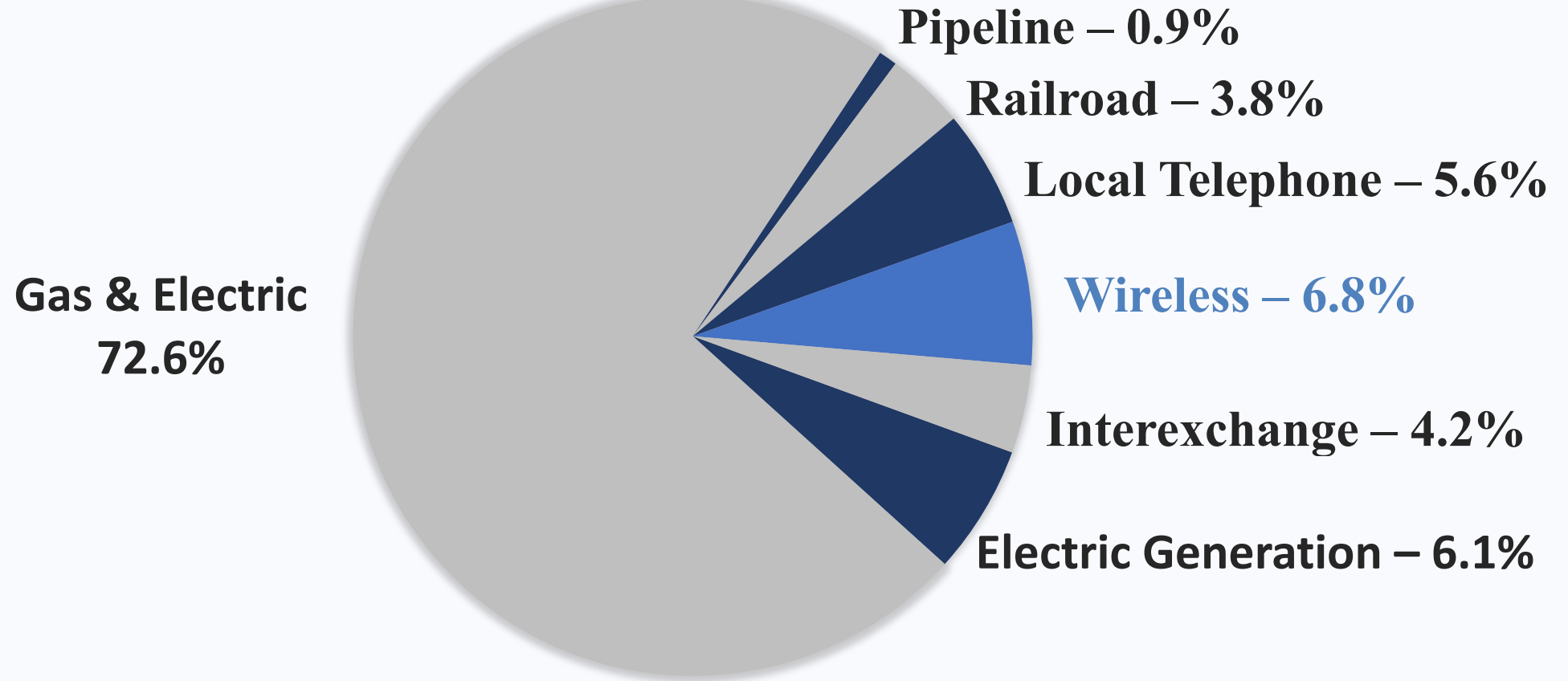


WIRELESS TELEPHONE – NUMBER OF ASSESSEES





WIRELESS TELEPHONE – TOTAL 2021 VALUE





Wireless Telephone – Value Indicators

- Replacement Cost Less Depreciation (ReplCLD) – cost approach
- Capitalized Earning Ability (CEA) – income approach
 - CEA value indicator is sometimes considered, but is generally not relied upon as it may include value related to non-assessable property

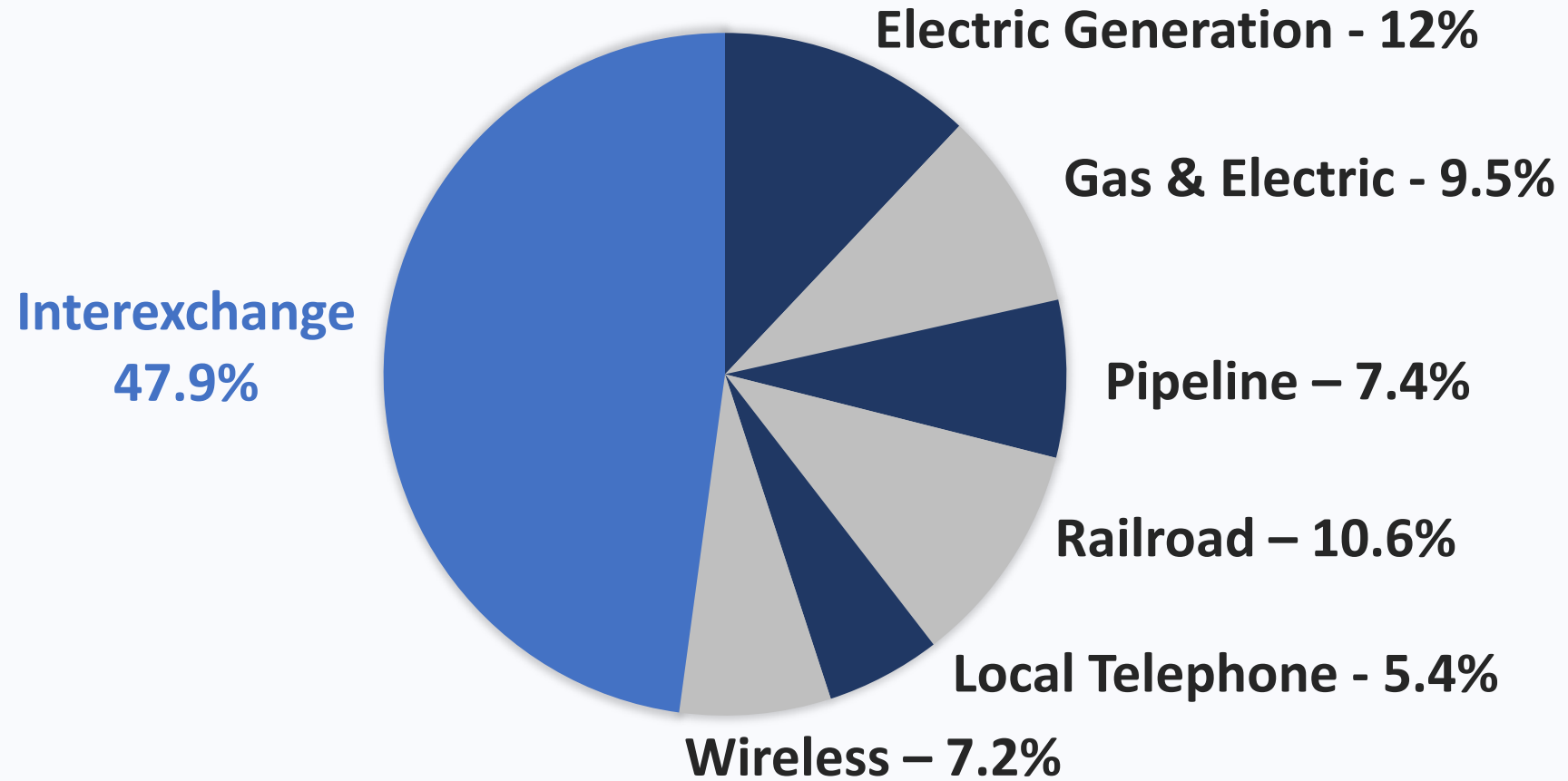


Wireless Telephone – Industry Trends

- Covid-19 impact to wireless industry
 - Increase in connected devices
 - Market saturation
- 3G networks
- Spectrum (5G)

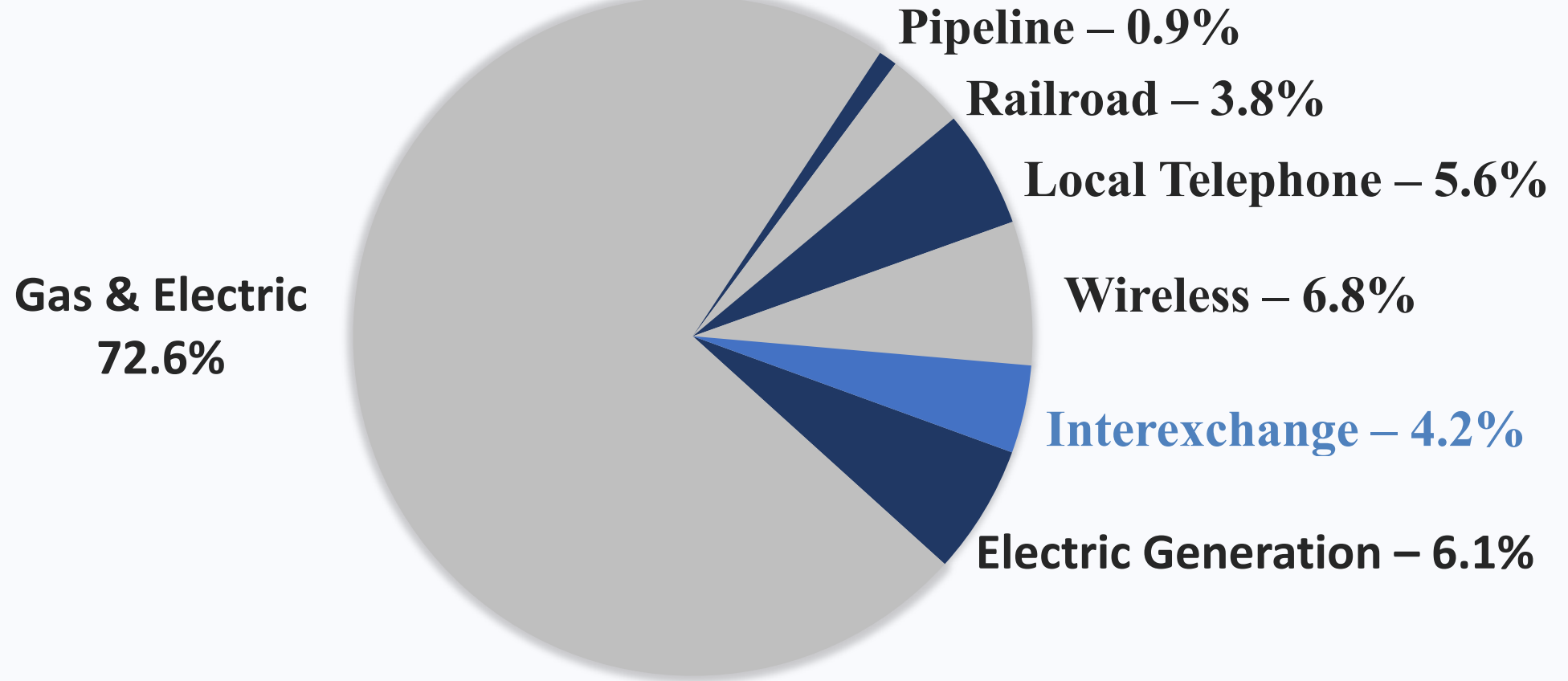


INTEREXCHANGE– NUMBER OF ASSESSEES





INTEREXCHANGE – TOTAL 2021 VALUE





Interexchange – Value Indicators

- Replacement Cost Less Depreciation (ReplCLD) – cost approach
 - Trend factors derived from industry and market sources
 - Deprecation (percent good) factors derived from industry and market sources

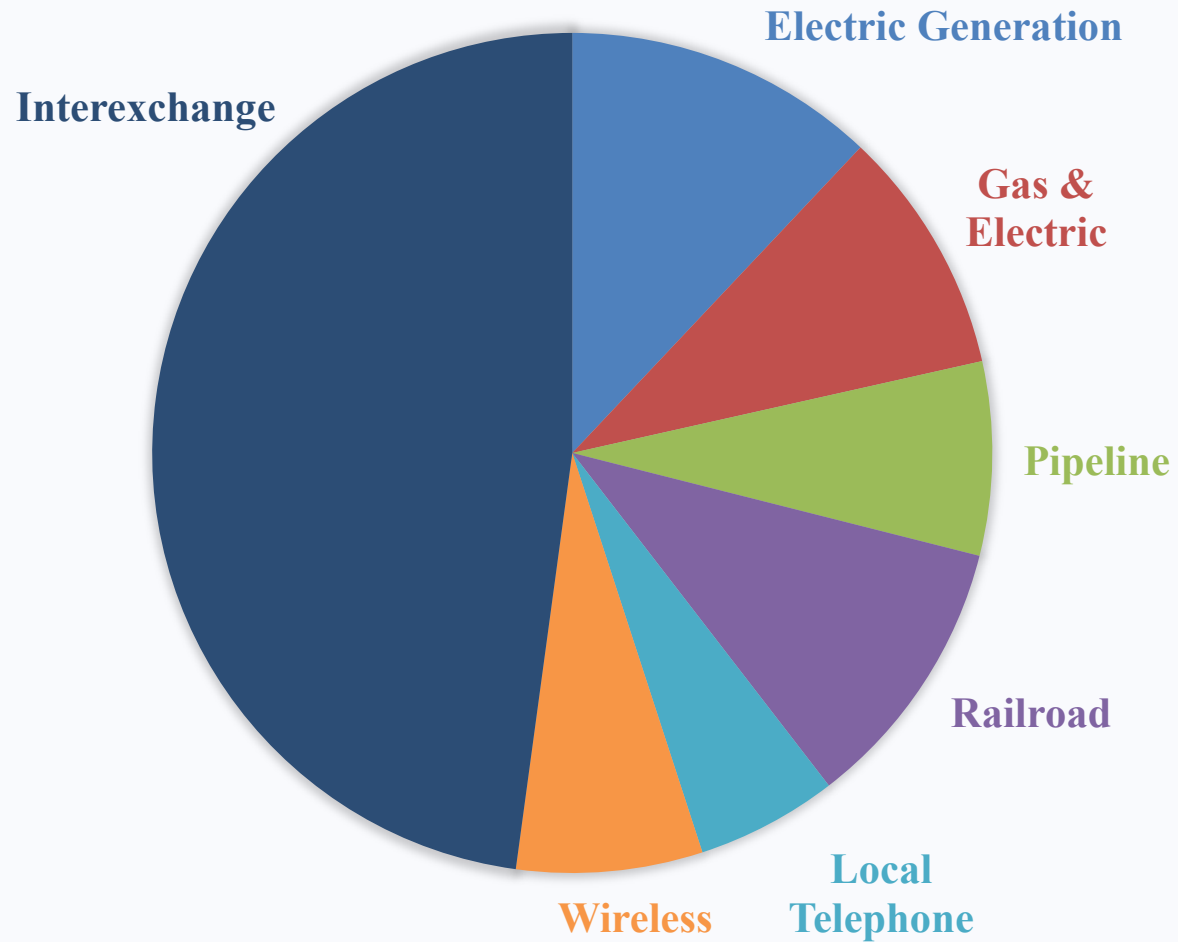


Interexchange – Industry Trends

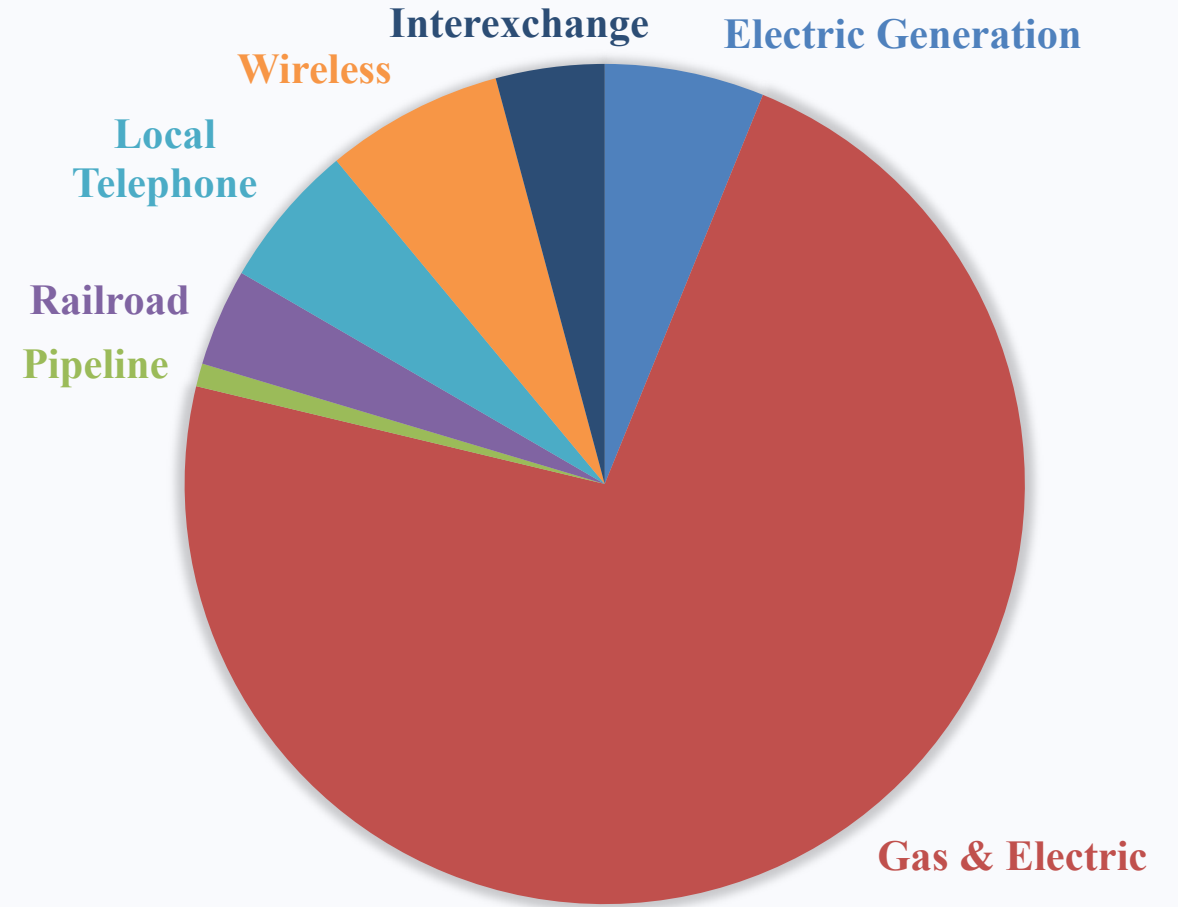
- Fiber Optic Infrastructure
- Covid-19 impact
- Acquisitions and mergers of various size telecom services



NUMBER OF STATE ASSESSEES BY INDUSTRY



ASSESSED VALUE BY INDUSTRY





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Thank you
