

Issue Paper Number **09-006**



- Board Meeting
- Business Taxes Committee
- Customer Services and Administrative Efficiency Committee
- Legislative Committee
- Property Tax Committee
- Other

Document Processors – Business Property Assessment Practices Guidelines

I. Issue

What valuation factors for document processors should the State Board of Equalization (BOE) adopt for inclusion in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*?

II. Alternative 1 – Document Processors Team Recommendation

The Document Processors Team recommends that the attached valuation factors for document processors be adopted by the BOE for inclusion in the 2010 revision of Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (attachment A).

As a part of the completion of this effort, however, staff will continue working with industry to develop valuation factors for the class of equipment commonly referred to as laser high-speed production printers for which additional data will be necessary. The staff will return to the Committee in April 2010 to discuss this matter and present a completed study, provided the necessary data is supplied to staff in a timely fashion.

III. Other Alternative(s) Considered

None

IV. Background

The BOE co-administers the property tax in California with the county assessors. The 58 county assessors are charged with the assessment of locally assessed real and personal property for taxation purposes and resolution of appeals of property values at the local level in conjunction with county assessment appeals boards. The BOE's role is advisory and does not include setting values for any locally assessed property or for resolving disputes over those assessments.

Section 401.5 of the Revenue and Taxation Code requires that the BOE issue to county assessors data relating to costs of property and other information to promote uniformity in appraisal practices and in assessed values throughout the state. In an effort to comply with section 401.5, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). The index factors published in AH 581 are generally reliable for converting a property's original cost to an estimate of reproduction cost new (RCN). Percent good factors, which are the complement of depreciation factors, are then applied to the RCN to arrive at an estimate of market value.

The California Assessors' Association (CAA) annually publishes a position paper entitled *Business Assessment Factors*. This publication cites AH 581 equipment index factors, percent good factors, and valuation factor for use by all California Assessors in mass appraisal programs. The publication provides specific guidance in the direct use of the factors published in AH 581, including recommended lives for a wide range of personal property.

In 2004, industry approached the CAA requesting that the association incorporate specific valuation factors for document processors based on a valuation study the industry conducted. The CAA Copier Valuation Ad Hoc Committee was formed in response to this request by industry. The results of that study are contained in the CAA *Business Assessment Factors* publication.

In June 2008, the BOE directed staff to develop further valuation factors for AH 581 by conducting valuation studies for various industries that petition BOE staff for a study of their industry property/equipment. On May 14, 2009, BOE staff approved industry's petition requesting BOE staff to consider its most current valuation study of document processors consisting of stand alone copiers and multifunctional products (MFPs) that are capable of copying, scanning, printing, and faxing.

- The valuation study submitted by industry was authored by Deloitte Financial Advisory Services, LLP (Deloitte). The study contains 4,428 market sales transactions of used analog copiers and digital MFPs, including refurbishment cost incurred by dealers to ready these devices for sale to end users.
- In keeping with the format established on past valuation studies conducted by the BOE, BOE staff established a team to participate in the study. The team consisted of two BOE staff members, two representatives from the county assessors, and two representatives from industry.

V. Discussion

The team spent two months reviewing the study, refining the scope of the study, removing all analog data points due to the fact that analog equipment is no longer manufactured, and considering alternative qualitative approaches in drawing conclusions based on the data. After a number of discussions and careful consideration of alternative qualitative analysis of the digital data points contained in the study, the team reached an agreement on the proposed valuation factors for document processors (attachment A).

The recommended valuation factors for this study should only be applied to office type document processors as defined in attachment A. The team, however, believes that there is a need to conduct a valuation study for equipment commonly referred to as laser high-speed production printers or digital printing presses. This class of equipment is manufactured by many of the same manufacturers of office type document processors; but the costs, operating characteristics, speed and volume capabilities falls between office type document processors and offset lithographic printers, the subject of the other current valuation factor study that staff is working on.

Since the issue of how laser high-speed production printers should be valued arose in both the document processor study and the offset lithographic study, staff has informed industry representatives that staff is committed to conducting a study of this class of equipment as soon as possible with the goal of bringing a completed study before the Committee in April, 2010.

VI. Alternative 1 – Non-Production Computer Team Recommendation

What valuation factors for document processors should the State Board of Equalization (BOE) adopt for inclusion in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*?

A. Description of Alternative 1

The Document Processor Team recommends that the attached valuation factors, including the definition, for document processors be adopted by the BOE for inclusion in the 2010 revision of Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (attachment A).

As a part of the completion of this effort, however, staff will continue working with industry to develop valuation factors for the class of equipment commonly referred to as laser high-speed production printers for which additional data will be necessary. The staff will return to the Committee in April 2010 to discuss this matter and present a completed study, provided the necessary data is supplied to staff in a timely fashion.

B. Pros of Alternative 1

Adoption of Alternative 1 is reflective of the best information available and will result in the majority, if not all, of the California County Assessors using the AH 581 when estimating market values for document processors. This will lead to more uniform assessments for taxpayers.

C. Cons of Alternative 1

None.

D. Statutory or Regulatory Change for Alternative 1

None.

E. Operational Impact of Alternative 1

None.

F. Administrative Impact of Alternative 1

1. Cost Impact

None.

2. Revenue Impact

It is anticipated that there may be a small revenue impact in application of the valuation factors in Alternative 1 when compared to application of the current valuation factors in the CAA Business Assessment Factors publication, Table A. The recommended valuation factors represent a decrease in the valuation of document processors.

G. Taxpayer/Customer Impact of Alternative 1

Taxpayers will experience a decrease in their assessment of document processor as a result of Alternative 1.

H. Critical Time Frames of Alternative 1

The valuation factors discussed in this Alternative ultimately will be published in the 2010 revision of AH 581. AH 581 will go before the Board for adoption at its December 2009 meeting.

Preparer/Reviewer Information

Prepared by: Property and Special Taxes Department; County-Assessed Properties Division

Current as of: October 20, 2009

TABLE 10: Document Processor Valuation Factors

Year Acquired	Age	Document Processors
2009	1	58
2008	2	47
2007	3	32
2006	4	28
2005	5	23
2004	6	19
2003	7	15
2002	8	13
2001	9	10
2000	10	10

USE OF TABLE 10

The Document Processor Valuation Factors table was adopted by the Board on December 15, 2009 and became effective as of the lien date January 1, 2010. For mass appraisal purposes, these factors are intended to be applied directly to historical costs of document processors. A 10 percent minimum valuation factor applies to devices beyond age 8.

DEFINITION OF DOCUMENT PROCESSOR

Document processors include analog "light-lens" devices, as well as digital devices, which contain a document scanning system and a print controller. These include stand-alone copiers, and multifunction products (MFPs) that are capable of copying, scanning, printing, and faxing.