

SPECIAL TOPIC SURVEY

MINIMUM PERCENT GOOD FACTORS

NOVEMBER 1999

CALIFORNIA STATE BOARD OF EQUALIZATION

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PREFACE

The State Board of Equalization is required by law to periodically audit the assessment programs in each of the 58 California counties. The results and recommendations arising from these field and office audits are published in assessment practices survey reports. In addition, the Board makes periodic statewide surveys limited in scope to specific topics, issues, or problems affecting local property taxation. These special topic surveys, authorized by sections 15640 and 15643 of the Government Code, are conducted as needed by the Board's Property Taxes Department. The findings of these selective surveys are published and distributed to the Legislature, all county assessors, the Members of the Board, and Board staff who are involved with the particular survey issue. Copies of these surveys are also available to the public.

The subject of this special topic survey, which was authorized by the Members of the Board of Equalization on December 10, 1998, is Minimum Percent Good Factors. The goals of this report are to identify current assessment practices pertaining to the application of minimum percent good factors, and to present the Board's staff position regarding these practices.

The primary source of information regarding current assessment practices used in county assessors' offices was a questionnaire containing 19 questions, which was sent to each of the 58 county assessors. Of the 58 counties, 52 of the assessors participated in this survey. Forty-six of the counties that participated sent their questionnaires to the California Assessors' Association (CAA) for inclusion in a combined response. Six county assessors sent their responses exclusively to the Board's Property Taxes Department. These were added to the combined response received from the CAA to complete the cumulative tabulation.

This report was written by staff of the Policy, Planning, and Standards Division of the Property Taxes Department. We wish to express our appreciation for the efforts and cooperation of Honorable Cris Andrews, Assessor of Shasta County, Business Property Subcommittee Chairman of the California Assessors' Association Standards Committee; and to all of the participating assessors.

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CHAPTER 1: INTRODUCTION

Minimum percent good factors are factors utilized to estimate the lowest value that a property will attain during its useful life. The factors are applied to replacement or reproduction cost new estimates to compute the fair market value of property as it reaches the end of its economic life.

Currently, statute does not discuss or direct assessors in their use of minimum percent good factors. However, the topic has been the subject of regulatory amendment in years past.

Prior to 1977, Rule 6(f) read:

(f) If the assessor adopts a practice of depreciating property to a minimum percent good, that minimum may be any percentage up to but no higher than 25 percent of reproduction or replacement cost new.

This subdivision was amended, deleting the wording referencing minimum percent good, following *Bret Harte Inn, Inc. v. City & County of San Francisco* 16 Cal.3d 14 (1976). In this case, the court held that the constitution commands that all property be assessed at full cash value and requires that depreciation formulas meet a standard of "reasonable accuracy."¹ It appears that the 25 percent maximum formerly outlined in Rule 6 was considered arbitrary, and therefore unsupportable.

The purpose of this survey regarding minimum percent good factors was to determine (1) if county assessors are using minimum percent good factors in the valuation of personal property and fixtures and (2) if so, how are the assessors establishing the factors. Board staff gathered information from the assessors regarding this subject using a survey questionnaire.² We caution the reader that a questionnaire sometimes can be misunderstood and that inappropriate answers to questions may be unintentionally submitted. Overall, however, the assessors' responses were considered informative and candid.

This report is the compilation of data received from the 52 county assessors who responded to the survey questionnaire. Chapter 2 includes a brief discussion on valuation theory including the application of index and percent good factors. Definitions of the terms *scrap value*, *salvage value*, and *minimum percent good* are identified to distinguish valuation differences. Chapter 3 gives a general summary of the data and comments received from the participating counties. (Appendix 2 is the tabulation of questionnaire responses.) As part of the process of reviewing minimum percent good factors reported

¹ The assessor of San Francisco utilized the cost method of valuation when valuing the Bret Harte Inn, Inc. property. Regardless of the property's age or useful life, the assessor applied a 50 percent depreciation estimate. A 50 percent assessment ratio was then applied to this depreciated value. This method of valuation was held invalid.

² See Appendix 1 for sample questionnaire.

by the assessors, various charts and graphs were utilized to determine if any uniformity existed. These charts and graphs are presented in Chapter 3. The Board's staff position regarding the use of minimum percent good is included in Chapter 4, Staff Recommendation.

CHAPTER 2: APPRAISAL DISCUSSION

VALUATION THEORY

VALUE

Value is defined in section 110(a)³ as:

. . . the amount of cash or its equivalent that property would bring if exposed for sale in the open market under conditions in which neither buyer nor seller could take advantage of the exigencies of the other and both the buyer and the seller have knowledge of all of the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions upon those uses and purposes.

Value, in other words, is the present worth of anticipated future benefits, or the monetary worth of a property at a given time. Property Tax Rule 3⁴ outlines and prescribes approaches to estimating value. The approaches most often used at the county level include the cost approach, the income approach, and the comparative sales approach.

The cost approach is most commonly used to value personal property and business fixtures. Specifically the reproduction cost and the replacement cost approach variations are utilized, as discussed in Rules 3 and 6. In general, these variations of the cost approach use historical or original cost⁵ information to estimate a reproduction cost new (current cost new to reproduce an *identical* property) or replacement cost new (current cost new to replace a property with a *similar* property of the same utility). The reproduction or replacement cost new is then adjusted to reflect depreciation to arrive at an assessable value.⁶ Assessors' Handbook Section 504 (AH 504)⁷, *Assessment of Personal Property and Fixtures*, and the yearly update of AH 581, *Equipment Index and Percent Good Factors*, discuss these procedures.

³ All section references refer to Revenue and Taxation Code sections unless otherwise noted. Text of the Revenue and Taxation Code sections cited and relevant to discussions in this report are included in Appendix 4.

⁴ All Rule references refer to the Property Tax Rules in Title 18 of the California Code of Regulations. Text of the Rules cited and relevant to discussions in this report are included in Appendix 5.

⁵ Rule 6 uses the term *historical cost* and *original cost* synonymously, the cost of the property when new. The term *acquisition cost* is used as the cost to the current owner. For purposes of this discussion, the terms are used as defined in Rule 6.

⁶ Alternatively, one factor may be developed and used to estimate value using one mathematical operation (*original/historical cost x value factor = value estimate* as opposed to *original/historical cost x index factor x percent good factor = value estimate*).

⁷ All references to Assessors' Handbook (AH) sections refer to handbooks published by the California State Board of Equalization. Publication dates will vary and will be noted, if specific to the discussion.

EQUIPMENT INDEX FACTORS

Equipment index factors are developed for use in mass appraisals and are generally reliable and practical for converting historical or original cost to estimates of reproduction cost new or replacement cost new. The index factors recommended by the Board, updated and distributed yearly, are presented in AH 581 in three separate tables: (1) commercial equipment, (2) industrial equipment, and (3) agricultural and construction equipment. Additionally, Board staff provides tables to be used in the valuation of computers and related equipment, semi-conductor manufacturing equipment, and state assessed properties.⁸

Maximum Recommended Equipment Index Factor

Because rapid technological changes have taken place in recent years, AH 581 recommends use of a maximum equipment index factor when valuing equipment. The recommended maximum factor is the factor for an age equal to 125 percent of the estimated average service life.⁹

The following example demonstrates use of the 125 percent maximum.

EXAMPLE: Estimating the Maximum Recommended Equipment Index Factor

A taxpayer acquired warehouse equipment for \$15,000 in 1981. What is the maximum recommended equipment index factor if this equipment has a 12 year average service life?

- Average service life of 12 years multiplied by the recommended 125 percent maximum equals 15 years ($12 \times 1.25 = 15$).
- Since the recommended maximum, or adjusted service life, is 15 years, the appropriate index factor is the index factor corresponding to an item acquired in 1984 (1999 - 15). The index factor is 131 percent.
- Actual age of equipment on 1999 lien date is 18 years (1999 - 1981 = 18). Without using the recommended maximum the index factor is 142 percent.

⁸ Index factors for state assessed properties are available upon request.

⁹ See also AH 581.

EXAMPLE (continued)

The index factors and resulting replacement cost new estimates, with and without adjustments for the recommended maximum, are indicated below for comparison purposes.¹⁰ It should be noted, however, that the use of the 125 percent limit is a recommendation. It is not intended to replace appraiser judgment.

| | Equipment Group | Year of Acquisition | Cost of Acquisition | Index Factor | Replacement Cost New |
|----------------|-----------------|---------------------|---------------------|--------------|----------------------|
| Maximum | Ware-house | 1984 ¹¹ | \$15,000 | 1.31 | \$19,650 |
| Actual | Ware-House | 1981 | \$15,000 | 1.42 | \$21,300 |

PERCENT GOOD FACTORS

Percent good, as a percentage, is the complement of depreciation.¹² For example, if total depreciation is 20 percent, the property is 80 percent good.¹³ Thus, the percent good factor is 0.80.

Percent good factors are provided by the Board in AH 581 for use in valuing personal property and fixtures.¹⁴ The factors are designed to assist the appraiser in estimating replacement or reproduction cost new less normal depreciation of commercial and industrial equipment. They are not designed to replace appraiser judgment, and/or available market data. Any percent good table or depreciation schedule, including those published by the Board, should be used only as a guide in the estimation of value. The tables may reflect more or less depreciation than the actual market indicates. If equipment has experienced abnormal, excessive, or even less-than-expected depreciation, the percent good factors may not be reliable.

¹⁰ Index factors used in this example are taken from AH 581 (January 1999), Table 1: Commercial Equipment Index Factors (1999), *Warehouse*.

¹¹ Actual year of acquisition is 1981. The year 1984 represents the recommended maximum.

¹² Depreciation is the difference between the value of a hypothetical new, similar property and the current value of the subject property; the total measure of the reduced value at a particular point in time.

¹³ See also Rule 6(e).

¹⁴ AH 582, *The Explanation of the Derivation of Percent Good Factors*, discusses the derivation of the percent good factors included in AH 581.

SALVAGE AND SCRAP VALUE

The assessor will occasionally be required to appraise property that is worn out or no longer used as originally intended. The value of such property is typically referred to as salvage or scrap value, and should be determined on a case-by-case basis considering all the facts and circumstances presented. The definitions of salvage value and scrap value are presented below to distinguish the differences between these values and the value resulting from use of minimum percent good factors.

Salvage Value Defined

Black's Law Dictionary defines *salvage value* as:

That value of an asset which remains after the useful life of the asset has expired. It is commonly equivalent to scrap value and in most cases must be deducted in computing depreciation. Actual or estimated selling price, net of removal or disposal costs, of a used plant asset to be sold or otherwise retired. It may consist of the actual resale price which taxpayer can expect to realize upon disposition of asset when taxpayer's use of it in his business terminates; it is not some nominal or junk value.¹⁵

The Assessors' Handbook defines *salvage value* in relation to personal property as "the value of property at the end of its economic life in its present use."¹⁶

Scrap Value Defined

The terms scrap value and salvage value are sometimes used interchangeably. However, the values may differ. *Scrap value* is defined as:

The price expected for a part of a property that is sold and removed from the premises to reclaim the value of the material of which it is made, e.g., plumbing fixtures sold for their metal content.¹⁷

MINIMUM PERCENT GOOD

When percent good tables indicate very low percent good factors for property that is still functioning, special consideration should be given in assigning percent good factors and estimating fair market value. Minimum percent good factors are factors utilized to estimate the lowest value that a property will attain during the useful life of the property. At the end of the useful life of the property, salvage value or scrap value needs to be estimated by the appraiser.

Minimum percent good factors are applied to replacement or reproduction cost new estimates to compute the fair market value of property as it reaches the end of its

¹⁵ *Black's Law Dictionary*, s.v. "salvage value."

¹⁶ AH 504, *Assessment of Personal Property and Fixtures* (December 1998), glossary, p. 240.

¹⁷ *The Dictionary of Real Estate Appraisal* (3rd ed. 1993), p. 323.

economic life. The presumption is that property at the later stages of life, which continues to remain useful, maintains a minimum fair market value.

In summary, minimum percent good factors are helpful when estimating the fair market value of equipment which (1) is at the end or in a late stage of its useful life, and/or (2) based upon market data, has been determined to have reached its lowest value (i.e., the equipment has "fully depreciated" and the value is not expected to decline any further).

CHAPTER 3: SUMMARY OF FINDINGS

USE OF MINIMUM PERCENT GOOD FACTORS

Fifty (50) of the 52 counties that responded to the survey questionnaire utilized minimum percent good factors in their valuations of personal property and fixtures for assessment purposes at the time of this survey. Thirty-six (36) counties assign minimum percent good factors based on property type, and 15 counties assign minimum percent good factors based on the economic life of property; some of the counties noted that they use both property type and economic life to determine minimum percent good.¹⁸

Many assessors utilize such factors because (1) minimum percent good factors provide administrative convenience in the mass appraisal program, and (2) the assessors believe the factors utilized fairly reflect the value of the property being appraised.

The assessors commented:¹⁹

- Property in use (and generating income) still has utility and value.
- Arms length sales data information supports a minimum or floor value for used equipment.
- Minimum percent good factors account for salvage or scrap value.
- Using a minimum percent good factor enhances the equalization process by assigning a similar percent good factor to like personal property and fixtures. However, critical to this is allowing the appraiser to change the minimum percent good, as appropriate, to arrive at the correct market value.

In general, the assessors contend that equipment in use continues to have value and well-maintained used equipment would be undervalued without minimum percent goods. They utilize minimum percent good factors as a necessary convenience in a mass appraisal system. However, minimum percent good factors are not believed to be appropriate or accurate in all situations. Exceptions appear to be dealt with on an individual basis, and values are altered if a taxpayer provides documentation and/or it is deemed appropriate. Further, assessors comment that minimum percent good can be justified using market data.

¹⁸ Those respondents noting that they use both property type and economic life to determine minimum percent good are included in both counts and thus duplicated in the total sum.

¹⁹ The comments provided below do not represent a complete summary, but a synopsis of common responses. See Appendix 2, *Results of Questionnaire*, for a complete listing of assessors' responses.

DEVELOPMENT OF MINIMUM PERCENT GOOD FACTORS

Minimum percent good factors are developed by individual assessors based on property type, economic life, or both. They are generally developed for individual property classifications²⁰ based on one or more of the following:²¹

- General appraisal experience and opinion
- AH 581 (different methods are used by the counties starting with the tables presented yearly in the handbook)
- Market data (used equipment sales, Marshall Valuation Services, etc.)
- Historical minimum percent good used by the county

Some counties reported using maximum recommended index factor methodology to determine a minimum percent good factor.²² That is, the minimum percent good factor is estimated as the factor for an age equal to 125 percent of the estimated average service life. Other counties reported using the AH 581 factors as intended with the exception of following the percent good factors to their lowest levels. In general, comments indicated that the Board recommended tables do not accurately reflect the market value of older equipment. Assessors believe equipment in use after many years has a higher value than that indicated by the percent good tables.

FACTOR RANGE

The range of minimum percent good factors developed and used by assessors to value personal property and business fixtures varies by property type, class, and age. For some categories, a significant range exists. Based on the tabulation, staff is unable to generalize any minimum percent good for any property type currently used by counties.

The data received in response to questions 12 and 13 of the survey questionnaire are presented in the following tables and graphs for comparison purposes.²³ The seven tables associated with the graphs list the property type and/or economic life of property with the reported percent good factors. Each factor listed on the tables represents a factor reported by one county. The number of times a specific factor is repeated represents the number of counties that reported that factor for that type of property.

²⁰ Only 6 respondents utilize a standard minimum percent good factor for all types of personal property.

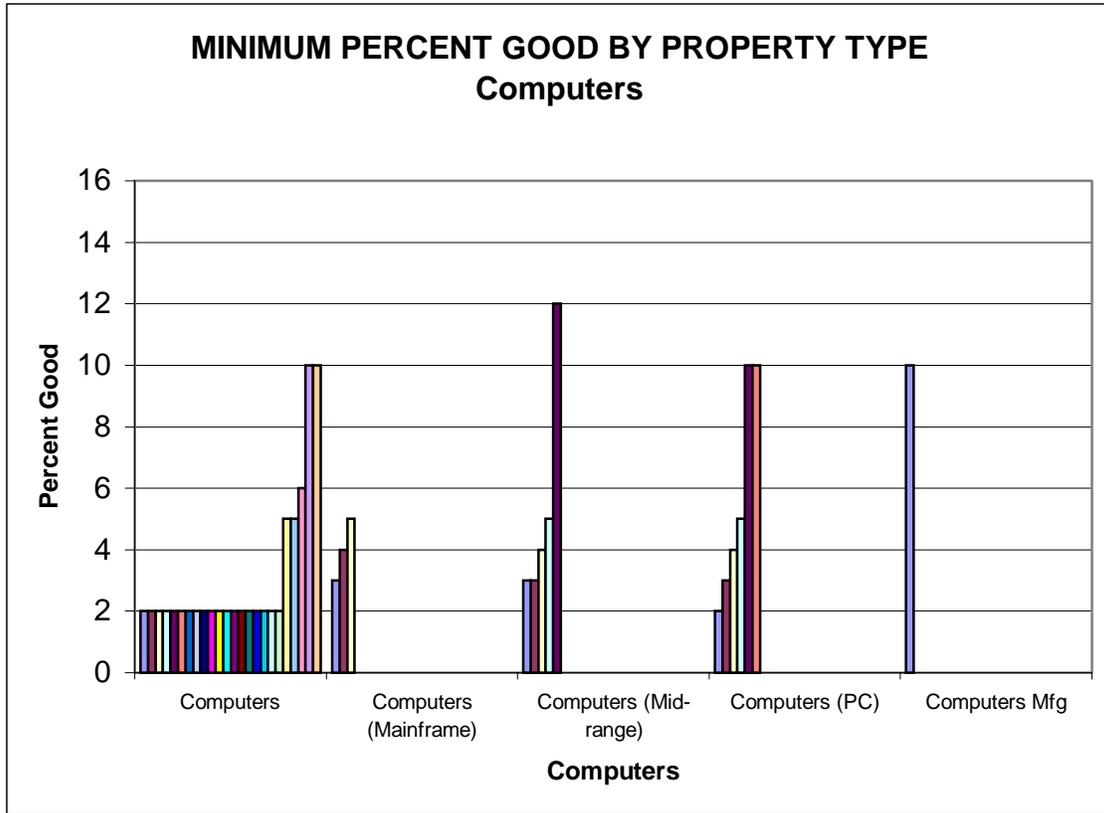
²¹ The comments provided below do not represent a complete summary, but a synopsis of common responses. See Appendix 2, *Results of Questionnaire*, for a complete listing of assessors' responses.

²² See Chapter 2 of this report and AH 581 for additional information regarding recommended maximum index factors.

²³ Question 12 requested the assessor to list property classifications with corresponding minimum percent good factors. Question 13 requested minimum percent good factors by economic life of property.

GRAPH 1: MINIMUM PERCENT GOOD BY PROPERTY TYPE, COMPUTER EQUIPMENT

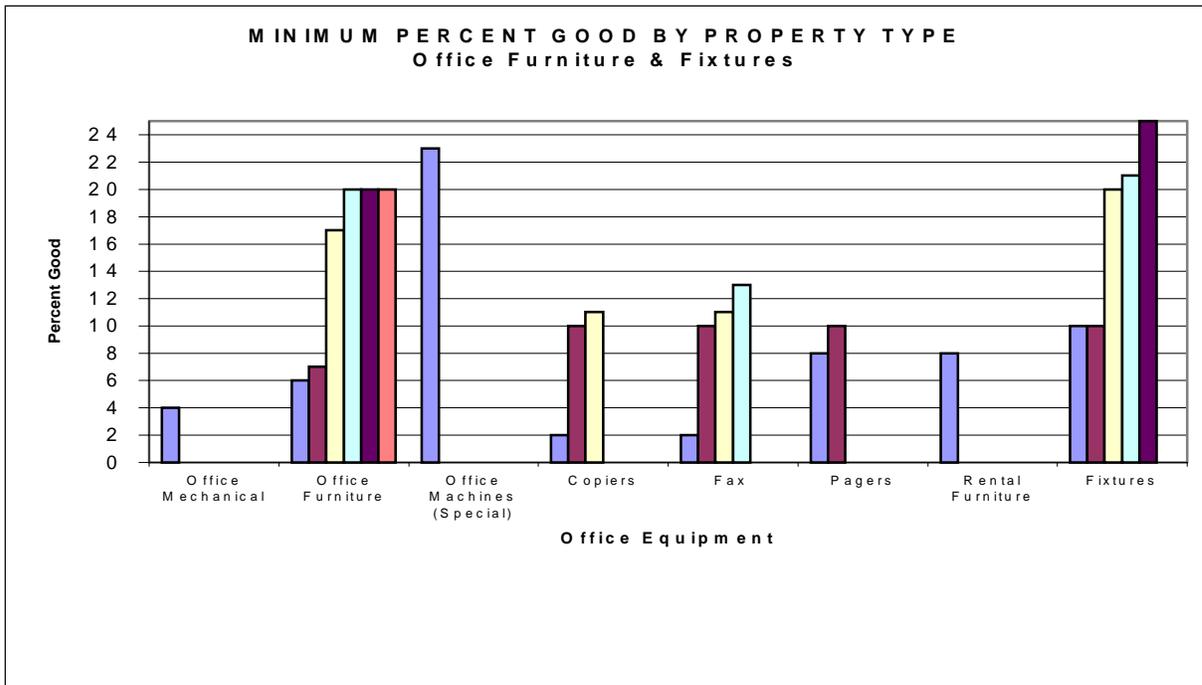
Graph 1 represents the assessors' responses to question 12 of the special topic survey for computer equipment only. Data used to create the graph are presented in the form of a table. Each percent good factor listed on the table represents a factor reported by one county.



| PROPERTY TYPE | ASSESSORS' REPORTED MINIMUM PERCENT GOODS | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------|---|---|---|---|----|----|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|----|----|
| Computers | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 5 | 5 | 6 | 10 | 10 |
| Computers (Mainframe) | 3 | 4 | 5 | | | | | | | | | | | | | | | | | | | | | |
| Computers (Mid-range) | 3 | 3 | 4 | 5 | 12 | | | | | | | | | | | | | | | | | | | |
| Computers (PC) | 2 | 3 | 4 | 5 | 10 | 10 | | | | | | | | | | | | | | | | | | |
| Computers Mfg | 10 | | | | | | | | | | | | | | | | | | | | | | | |

GRAPH 2: MINIMUM PERCENT GOOD BY PROPERTY TYPE, OFFICE FURNITURE AND EQUIPMENT

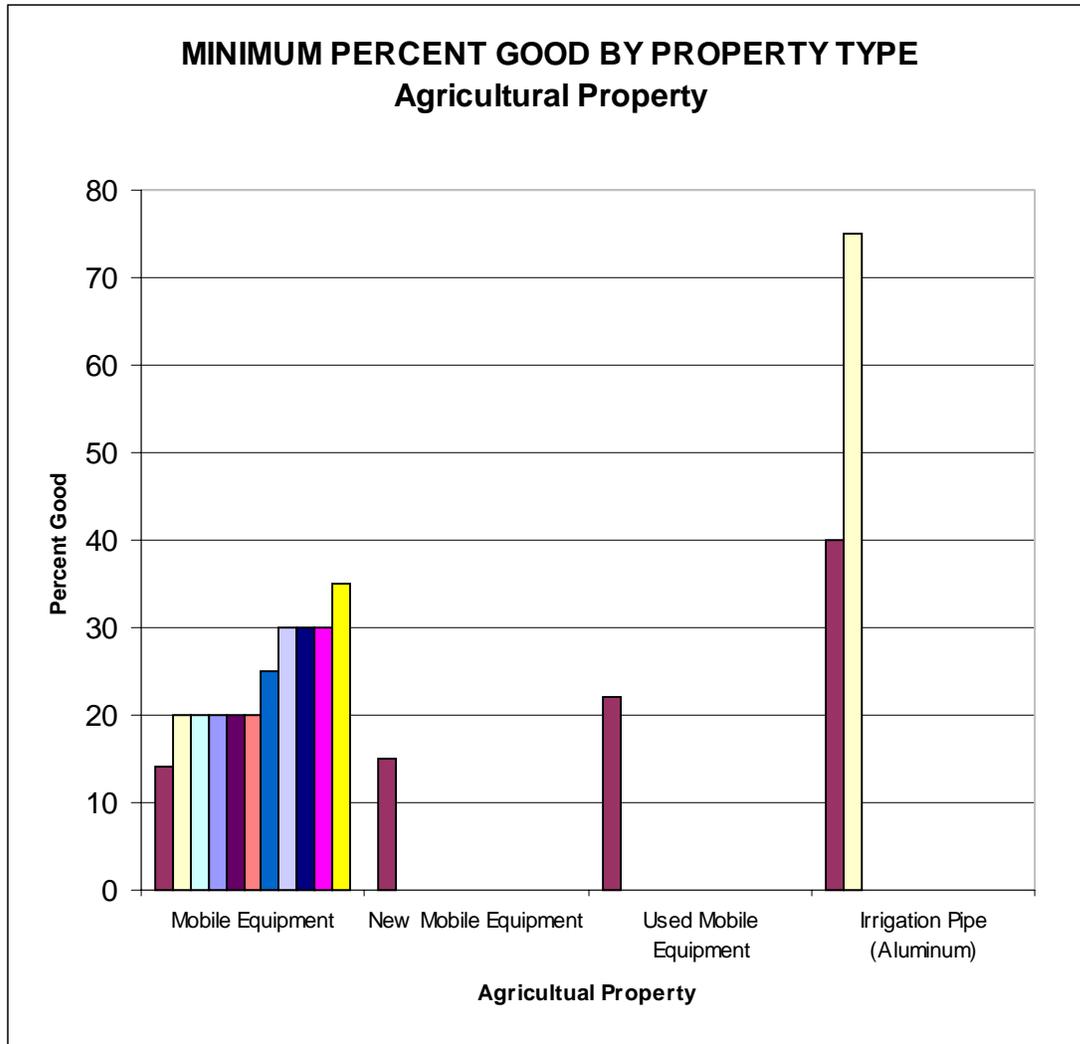
Graph 2 represents the assessors' responses to question 12 of the special topic survey for office furniture and equipment only. Data used to create the graph are presented in the form of a table. Each percent good factor listed on the table represents a factor reported by one county.



| PROPERTY TYPE | ASSESSORS' REPORTED MINIMUM PERCENT GOODS | | | | | |
|---------------------------|---|----|----|----|----|----|
| Office Mechanical | 4 | | | | | |
| Office Furniture | 6 | 7 | 17 | 20 | 20 | 20 |
| Office Machines (Special) | 23 | | | | | |
| Copiers | 2 | 10 | 11 | | | |
| Fax | 2 | 10 | 11 | 13 | | |
| Pagers | 8 | 10 | | | | |
| Rental Furniture | 8 | | | | | |
| Fixtures | 10 | 10 | 20 | 21 | 25 | |

**GRAPH 3: MINIMUM PERCENT GOOD BY PROPERTY TYPE,
AGRICULTURAL PROPERTY**

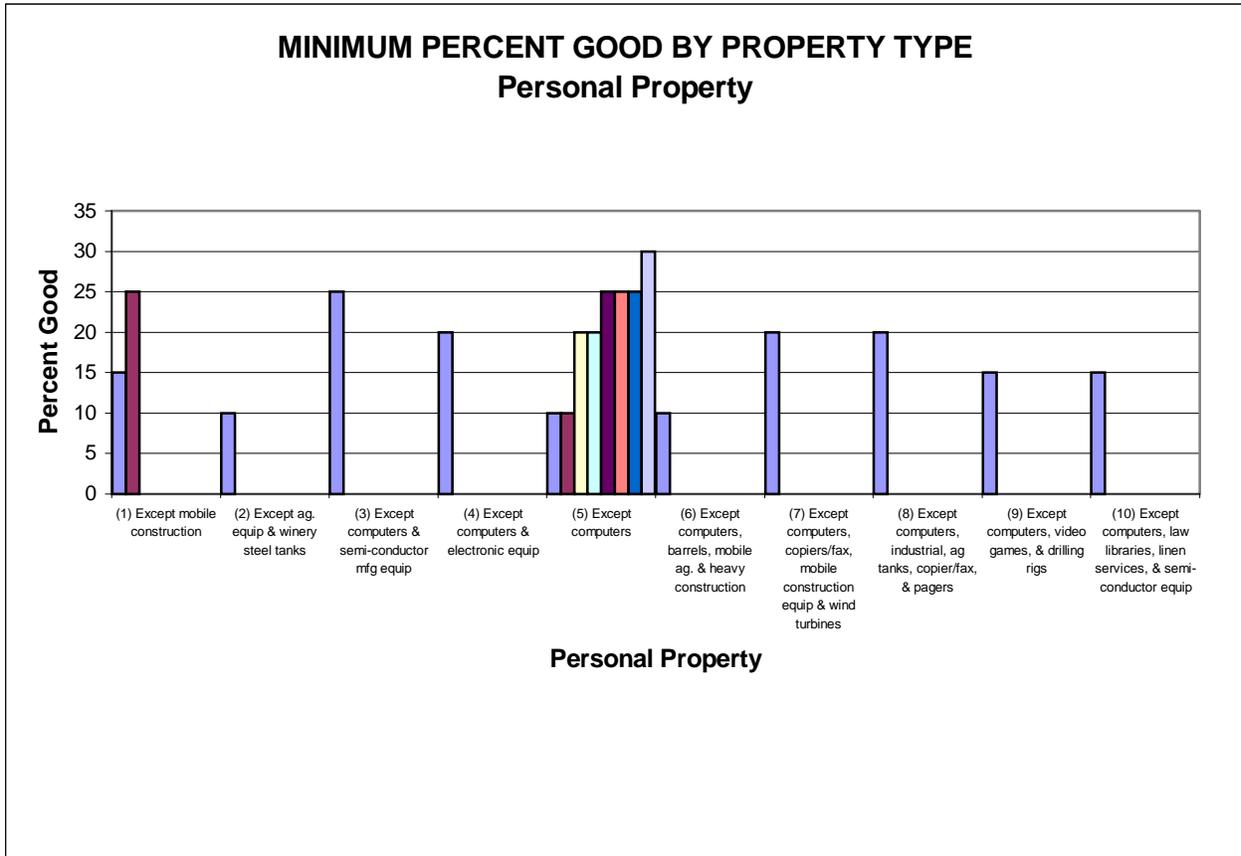
Graph 3 represents the assessors' responses to question 12 of the special topic survey for agricultural equipment only. Data used to create the graph are presented in the form of a table. Each percent good factor listed on the table represents a factor reported by one county.



| PROPERTY TYPE | ASSESSORS' REPORTED MINIMUM PERCENT GOODS | | | | | | | | | | |
|----------------------------|---|----|----|----|----|----|----|----|----|----|----|
| Mobile Equipment | 14 | 20 | 20 | 20 | 20 | 20 | 25 | 30 | 30 | 30 | 35 |
| New Mobile Equipment | 15 | | | | | | | | | | |
| Used Mobile Equipment | 22 | | | | | | | | | | |
| Irrigation Pipe (Aluminum) | 40 | 75 | | | | | | | | | |

GRAPH 4: MINIMUM PERCENT GOOD BY PROPERTY TYPE, OTHER

Graph 4 represents the assessors' responses to question 12 of the special topic survey for personal property in general, defined as "other" for purposes of this report. Data used to create the graph are presented in the form of a table. Each percent good factor listed on the table represents a factor reported by one county.



| PERSONAL PROPERTY: | ASSESSORS' REPORTED MINIMUM PERCENT GOODS | | | | | | | |
|---|---|----|----|----|----|----|----|----|
| 1. Except mobile construction | 15 | 25 | | | | | | |
| 2. Except ag. equip & winery steel tanks | 10 | | | | | | | |
| 3. Except computers & semi-conductor mfg equip | 25 | | | | | | | |
| 4. Except computers & electronic equip | 20 | | | | | | | |
| 5. Except computers | 10 | 10 | 20 | 20 | 25 | 25 | 25 | 30 |
| 6. Except computers, barrels, mobile ag. & heavy construction | 10 | | | | | | | |
| 7. Except computers, copiers/fax, mobile construction equip & wind turbines | 20 | | | | | | | |
| 8. Except computers, industrial, ag tanks, copier/fax, & pagers | 20 | | | | | | | |
| 9. Except computers, video games, & drilling rigs | 15 | | | | | | | |
| 10. Except computers, law libraries, linen services, & semi-conductor equip | 15 | | | | | | | |

GRAPH 5: MINIMUM PERCENT GOOD BY PROPERTY TYPES, VARIOUS

Graph 5, presented on the following page, represents the assessors' responses to question 12 of the special topic survey for various property types (excluding computer equipment, office furniture and equipment, agricultural property, and "other"²⁴). Data used to create the graph are presented below in the form of a table. Each percent good factor listed on the table represents a factor reported by one county.²⁵

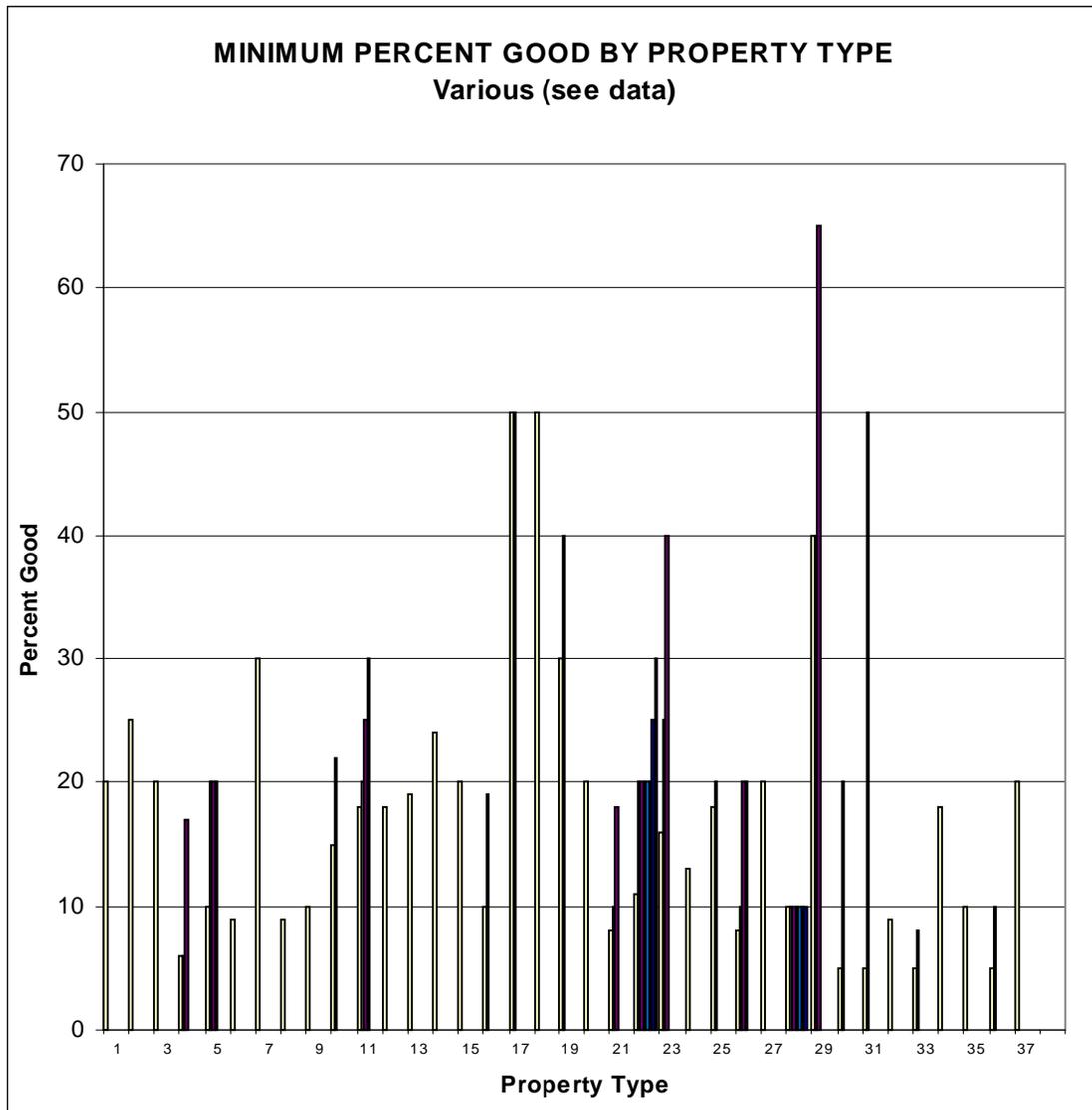
| PROPERTY TYPE | | ASSESSORS' REPORTED MINIMUM PERCENT GOODS | | | | | | | |
|---------------|-------------------------|--|----|----|----|----|----|----|----|
| 1 | Banking | 20 | | | | | | | |
| 2 | Boats | 25 | | | | | | | |
| 3 | Bowling | 20 | | | | | | | |
| 4 | Barrels (Brandy & Wine) | 6 | 6 | 17 | | | | | |
| 5 | Commercial | 10 | 20 | 20 | 20 | | | | |
| 6 | Contractor Tools | 9 | | | | | | | |
| 7 | Dairy & Poultry | 30 | | | | | | | |
| 8 | Drilling Rigs | 9 | | | | | | | |
| 9 | Electronic Equipment | 10 | | | | | | | |
| 10 | Garage | 15 | 22 | | | | | | |
| 11 | Industrial | 18 | 20 | 25 | 30 | | | | |
| 12 | Industrial Group 2 | 18 | | | | | | | |
| 13 | Industrial Group 3 | 19 | | | | | | | |
| 14 | Industrial Group 5 | 24 | | | | | | | |
| 15 | Industrial Group 6 | 20 | | | | | | | |
| 16 | Laundry/Cleaners | 10 | 19 | | | | | | |
| 17 | Law Libraries | 50 | 50 | | | | | | |
| 18 | Linen Services | 50 | | | | | | | |
| 19 | LPG Tanks | 30 | 40 | | | | | | |
| 20 | Machinery & Equipment | 20 | | | | | | | |
| 21 | Medical Equipment | 8 | 10 | 18 | | | | | |
| 22 | Mobile Construction | 11 | 20 | 20 | 20 | 20 | 20 | 25 | 30 |
| 23 | Motel/Hotel | 16 | 25 | 40 | | | | | |
| 24 | POS Equipment | 13 | | | | | | | |
| 25 | Restaurant | 18 | 20 | | | | | | |
| 26 | Retail | 8 | 10 | 20 | 20 | | | | |
| 27 | Satellite Dishes | 20 | | | | | | | |
| 28 | Semi-Conductor | 10 | 10 | 10 | 10 | 10 | 10 | 10 | |
| 29 | Tanks | 40 | 40 | 65 | | | | | |
| 30 | Theatre | 5 | 20 | | | | | | |
| 31 | Tools | 5 | 50 | | | | | | |
| 32 | Transmitters/Receivers | 9 | | | | | | | |
| 33 | Video Games | 5 | 8 | | | | | | |
| 34 | Warehouse | 18 | | | | | | | |
| 35 | Wholesale | 10 | | | | | | | |
| 36 | Wind Turbines | 5 | 10 | | | | | | |
| 37 | Winery - Steel Tanks | 20 | | | | | | | |

²⁴ See Graph 1, 2, 3, and 4 for data regarding computer equipment, office furniture and equipment, agricultural property, and "other" respectively. "Other" is defined by Graph 4 and the supporting data table.

²⁵ One county reported "Santa Clara Tables" for "Semi-Conductor" equipment minimum percent good. This minimum is equal to 10%, and listed as such in the data table.

(continued Graph 5: Minimum Percent Good By Property Type, Various)

(In order to identify the property type on the graph below, cross reference the number used on the graph with the number in the far left column of the table on the previous page.)



GRAPH 6: MINIMUM PERCENT GOOD BY ECONOMIC LIFE

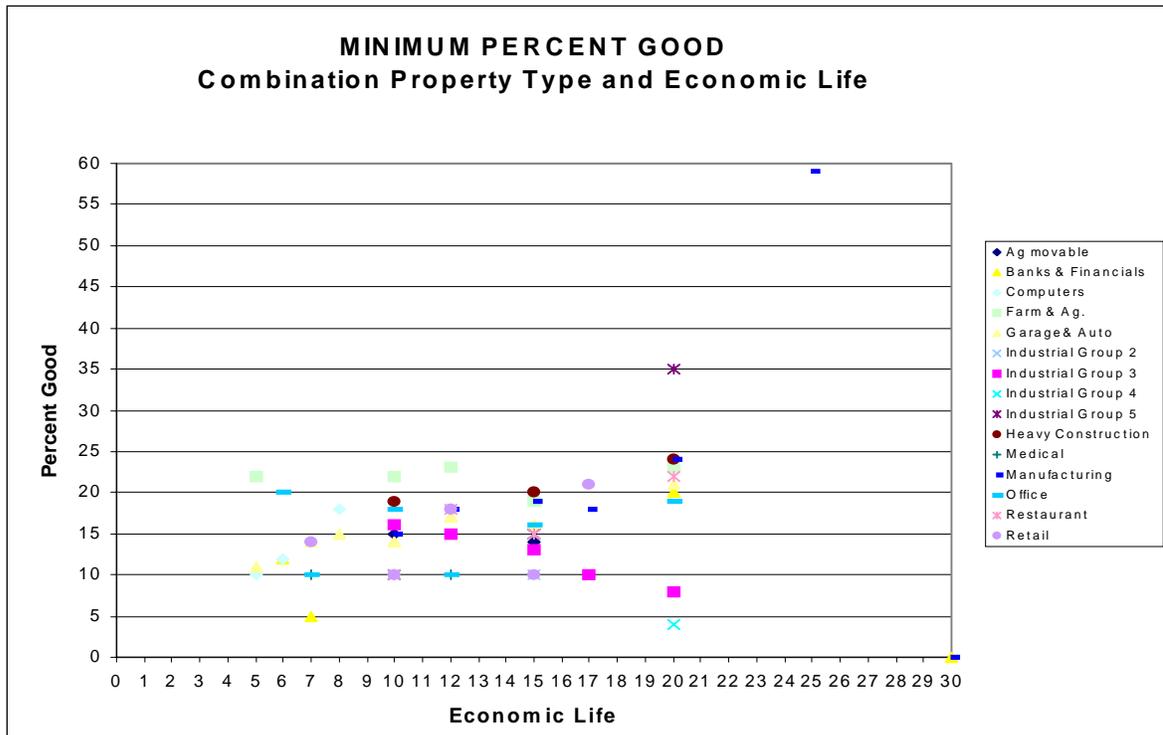
Graph 6 represents the assessors' responses to question 13 of the special topic survey, requesting minimum percent good factor based on economic life of property. Data used to create the graph are presented in the form of a table. Each percent good factor listed on the table represents a factor reported by one county.



| ECONOMIC LIFE | ASSESSORS' REPORTED MINIMUM PERCENT GOODS | | | | | | | | | |
|---------------|---|----|----|----|----|----|----|----|----|----|
| 1 | 10 | | | | | | | | | |
| 2 | 10 | | | | | | | | | |
| 3 | 10 | | | | | | | | | |
| 4 | 8 | 10 | 10 | 19 | | | | | | |
| 5 | 10 | 10 | 10 | 19 | 21 | 50 | | | | |
| 6 | 6 | 10 | 10 | 11 | 15 | 19 | | | | |
| 7 | 10 | 19 | 20 | | | | | | | |
| 8 | 9 | 9 | 10 | 15 | 20 | 20 | 23 | | | |
| 9 | 10 | 20 | | | | | | | | |
| 10 | 8 | 10 | 10 | 11 | 15 | 20 | 20 | 24 | 24 | |
| 11 | 10 | 20 | 20 | | | | | | | |
| 12 | 10 | 11 | 11 | 20 | 20 | 26 | 30 | | | |
| 13 | 10 | 20 | 20 | | | | | | | |
| 14 | 10 | 20 | 20 | | | | | | | |
| 15 | 10 | 10 | 11 | 11 | 20 | 20 | 20 | 28 | 33 | 44 |
| 16 | 10 | 10 | 20 | 20 | | | | | | |
| 17 | 10 | 10 | 20 | 20 | | | | | | |
| 18 | 10 | 10 | 20 | 20 | | | | | | |
| 19 | 10 | 10 | 20 | 20 | | | | | | |
| 20 | 10 | 10 | 13 | 13 | 20 | 20 | 30 | 40 | 44 | 50 |
| 30 | 10 | 10 | 18 | 20 | 20 | | | | | |

GRAPH 7: MINIMUM PERCENT GOOD BY PROPERTY TYPE AND ECONOMIC LIFE

In response to questions 12 and 13 of the special topic survey, some assessors reported minimum percent good factors based on property type *and* economic life. These responses were summarized separately and are shown on the graph below. Data used to create the graph are presented in the form of a table. Each percent good factor listed on the table represents a factor reported by one county.



| PROPERTY TYPE | ASSESSORS' REPORTED MINIMUM PERCENT GOODS | | | | | | | | | | | | | | | | | | |
|--------------------|---|----|----|----|---|----|----|----|----|----|----|----|----|----|----|----|----|--------|--------|
| | Economic Life | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 25 | 30 |
| Ag Moveable | | | | | | 15 | | | | | | 14 | | | | | | | |
| Banks & Financials | | 12 | 5 | | | 14 | | 17 | | | | 16 | | | | | 20 | 21 | No Min |
| Computers | 10 | 12 | 14 | 18 | | | | | | | | | | | | | | | |
| Farm & Ag. | 22 | | | | | 22 | | 23 | | | | 19 | | | | | 23 | | |
| Garage & Auto | 11 | | 14 | 15 | | 14 | | 17 | | | | 16 | | | | | 21 | | |
| Industrial Group 2 | | | | | | 10 | | | | | | 10 | | | | | | | |
| Industrial Group 3 | | | | | | 16 | | 15 | | | | 13 | | 10 | | | 8 | | |
| Industrial Group 4 | | | | | | 10 | | | | | | 15 | | | | | 4 | | |
| Industrial Group 5 | | | | | | 10 | | | | | | 15 | | | | | 35 | | |
| Heavy Construction | | | | | | 19 | | | | | | 20 | | | | | 24 | | |
| Medical | | | 10 | | | | | 10 | | | | | | | | | | | |
| Manufacturing | | | | | | 15 | | 18 | | | | 19 | | 18 | | 24 | 59 | No Min | |
| Office | | 20 | 10 | 20 | | 18 | | 10 | 17 | | | 16 | | | | 19 | | | |
| Restaurant | | | | | | 10 | 15 | 18 | | | | 15 | 17 | | | 22 | | | |
| Retail | | | 14 | | | 10 | 15 | 18 | | | | 10 | 18 | | 21 | | | | |

DETERMINATION OF SALVAGE OR SCRAP VALUE

Responses to question 5 on the survey questionnaire indicate that counties utilize various methods to determine the salvage and/or scrap value of property. The sources and methods reported by the assessors include the following:²⁶

- Case-by-case method²⁷
- Market conditions
- Salvage value table published by Marshall Valuation Service
- Minimum percent good
- Standard percentage (percentages reported by the counties ranged from 5-20%)

APPEALS

Five counties indicated that they have identified a percentage of appeals due to the application of a minimum percent good. The percentages ranged from 0.6% - 15%. It was noted, however, that it is difficult to determine if an appeal is related to minimum percent good in whole or in part. That is, appellants appeal value but are most likely unaware if minimum percent good factors are being applied or utilized to estimate that value.

One assessor noted that in one appeal the issue was that no minimum percent good should be used; the outcome of that appeal was in favor of the assessor. Other assessors noted that they had one or more appeals based on the contention that minimum percent good factors were too high. In some cases the local Boards of Equalization (i.e., the county appeals boards) have ruled in favor of the assessor, in others in favor of the taxpayer.

GENERAL COMMENTS

Comments described below regarding scrap and/or salvage value and minimum percent good factors are general comments and opinions provided by the assessors in response to questions 18 and 19 of the survey questionnaire. The comments provided below do not represent a complete summary, but a synopsis of common responses.

Minimum Percent Good Factors

Assessors comment that minimum percent good factors can be justified using market data. Minimum percent good factors are a necessary convenience for mass appraisal purposes, and provide guidelines rather than absolutes. In addition, assessors contend

²⁶ Sources and methods listed below do not represent a complete summary, but a synopsis of common responses. See Appendix 2, *Results of Questionnaire*, for a complete listing of assessors' responses.

²⁷ See also page 18, General Comments, Scrap and/or Salvage Value.

that the percent good factors supplied in AH 581 do not value used equipment or older equipment accurately. Equipment still in use after many years has a higher value than that indicated by the percent good tables. Therefore, some minimal value needs to be estimated. Assessors comment that the "no minimum percent good" statement in AH 581 leads to inconsistent application of percent good factors.

Scrap and/or Salvage Value

Assessors are willing to review the market value of salvage and/or scrap property once the taxpayer makes the assessor aware of the property. Property is valued at scrap or salvage value predominately on a case-by-case basis. Assessors request written documentation provided by the taxpayer, and value the property based upon the best information available and appraisal judgement.

CHAPTER 4: STAFF RECOMMENDATION

The Board does not recommend use of any percent good factors which are arbitrary and unreasonable, and which do not attempt to estimate the fair market value of property for assessment purposes. Therefore, the Board's staff cautions against using minimum percent good factors without adequate evidence.

Board staff recognizes, however, the need for standardization in mass appraisal programs. Minimum percent good factors are developed and used by assessors to estimate the value of equipment which (1) is at the end or at a late stage of its useful life, and/or (2) has been determined to have reached its lowest value (i.e., the equipment has "fully depreciated" and the value is not expected to decline any further). As such, Board staff supports the use of minimum percent good factors where the development of such factors is based on factual support.

Staff cannot suggest minimum percent good factors beyond the factors provided in AH 581, for general use or for individual property types, without a study of each property type.²⁸ Similarly, it would not be statistically sound to average selected minimum percent good factors based on the information provided by the assessors during this survey. However, staff does not discourage assessors from conducting studies and developing minimum percent good factors in their programs. If an assessor uses minimum percent good factors, as most do, he/she should be prepared to defend those factors and the resulting values in equalization hearings or other hearings involving this topic. Further, the factors and/or resulting values should be adjusted if, and when, necessary based on all available information.

²⁸ At the conclusion of this survey, the Board was attempting to allocate or identify funds for a study(s) of various property types. Such studies may assist in establishing recommended minimum percent good factors for certain properties in the future.

APPENDICES

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APPENDIX 1: SAMPLE QUESTIONNAIRE FOR SPECIAL TOPIC SURVEY ON MINIMUM PERCENT GOOD

Personal Property

1) Do you believe application of a minimum percent good in the valuation of personal property is appropriate? Yes___ No___

If not, why?

2) Does your county use minimum percent good factors for computing assessed values of personal property? Yes___ No___

3) If minimum percent good factors are used for personal property valuation, is a standard minimum used for all types of personal property? Yes___No___ N/A___

4) If your county uses a standard minimum percent good factor for all types of personal property, what is the minimum used?N/A___

- a. 5% _____
- b. 10% _____
- c. 20% _____
- d. 30% _____
- e. 40% _____
- f. other _____

5) How does your county determine salvage or scrap value of personal property?

Fixtures

6) Do you believe application of a minimum percent good in the valuation of fixtures is appropriate? Yes___ No___

If not, why?

7) Does your county use minimum percent good factors for computing assessed values of fixtures? Yes___ No___

8) If minimum percent good factors are used for valuation of fixtures, is a standard minimum used for all fixtures? Yes___ No___ N/A___

9) If your county uses a standard minimum percent good factor for valuation of fixtures, what is the minimum used? N/A____

- a. 5% _____
- b. 10% _____
- c. 20% _____
- d. 30% _____
- e. 40% _____
- f. other _____

10) How does your county determine salvage or scrap value of fixtures?

Personal Property and Fixtures

11) If a standard minimum percent good factor is *not* used for all types of property, is the minimum based on property type or economic life of the property?

- (a) Property Type_____ (b) Economic Life_____ (c) N/A_____

12) If the minimum percent good factor is based on **property type**, please list the property classifications with corresponding minimum percent good factor.

| Property Type | Minimum Percent Good Factor |
|---------------|-----------------------------|
| | |
| | |
| | |
| | |
| | |
| | |
| | |

13) If the minimum percent good factor is based on **economic life** of the property, please list the economic life of the property with the corresponding minimum percent good factor.

| Economic Life | Minimum Percent Good Factor |
|---------------|-----------------------------|
| | |
| | |
| | |
| | |
| | |
| | |
| | |

14) If minimum percent good factors are used by your county, why are they being used?

15) If minimum percent good factors are used by your county, how are the factors determined?

16) Last year what was the percentage of appeals that were due to the application of minimum percent good factors in the valuation of personal property and fixtures?

17) If there were appeals due to the application of minimum percent good factors, what were some of the issues and outcomes in these appeals?

18) Please provide any general comments you may have regarding the application of minimum percent good in the valuation of personal property and fixtures.

19) Please provide any general comments you may have regarding the determination of salvage or scrap value of personal property and/or fixtures?

Signed _____

Name _____

Title _____

County _____

Phone No. _____

Date _____

APPENDIX 2: RESULTS OF QUESTIONNAIRE

The special topic survey questionnaire regarding minimum percent good included 19 questions separated into 3 sections: personal property, fixtures, personal property and fixtures. Of the 58 counties, 52 of the assessors responded to the questionnaire and participated in the survey.

Following each question, as it appeared on the special topic survey, precedes the assessors' responses. None of the responses were edited. The text in italics are direct quotes from the assessors. If duplication existed, it is noted in the tabulation.

TABULATION OF QUESTIONNAIRE RESPONSES

Personal Property

1) Do you believe application of a minimum percent good in the valuation of personal property is appropriate?

Yes 49

No 1

Yes & No 2

If not, why?

- *Yes. However, our appraisal staff has the option of changing the minimum percent good, as appropriate, to arrive at the correct market value.*
- *Yes. Property reaches a threshold where it still has utility to business equal to cost of disposal and cost of efforts to find, secure, install and implement new replacement equipment.*
- *No. Equipment must have a minimal amount of maintenance to remain in service. Property should be assessed at its value, not at some arbitrary number.*
- *Yes & No. Do not believe in a minimum percent good when the asset has no salvage or scrap value, i.e., office furniture.*
- *Yes & No. Yes, if data supports a minimum. No, if data has not been captured. Without data use of minimum percent good is not consistent with method used to derive AH 581.*

2) Does your county use minimum percent good factors for computing assessed values of personal property?

Yes 50

No 2

3) If minimum percent good factors are used for personal property valuation, is a standard minimum used for all types of personal property?

Yes 6

No 44

N/A 1

*Yes, exception computer and computer related and agricultural.
(One County did not respond to this question.)*

4) If your county uses a standard minimum percent good factor for all types of personal property, what is the minimum used?

N/A 45

Number of Counties using:

a. 5% 0

b. 10% 2

c. 20% 2

d. 30% 0

e. 40% 0

f. other: 35% 1

125% of estimated
average service life 1

(One County did not respond to this question.)

5) How does your county determine salvage or scrap value of personal property?

- *Based on discussions with taxpayers and property tax audits, we generally use 10% of historical cost as a salvage value. This percentage is flexible based on information provided by the taxpayer.*
- *10% or less.*
- *By discussion with taxpayers concerning a particular situation; physical inspection; market data if available.*
- *The use of minimum percent good factors as a guideline together with sound appraisal judgment based upon the best available information.*
- *Case by case.*
- *Estimate (7% to 10 % usually)*

- *We use the State percent good factors and Marshall Swift personal property depreciation.*
- *By individual appraisal when brought to our attention by a taxpayer.*
- *Minimum percent good (response by 2 counties)*
- *On an individual basis incorporating inspection, discussion with taxpayer and checking market data.*
- *Generally follow AH 571. 5 - 15% good based on information provided.*
- *Market value of cannibalized salvaged parts less removal costs.*
- *Case by case. Item suitable for parts? In use? Net value or a cost to haul away?*
- *10% of original cost.*
- *We try to determine the value based on the market conditions and relate it to a percentage of cost.*
- *We don't. Minimum value is not equal to scrap value.*
- *10% to 20% depending on equipment type (what can be salvaged as replacement parts and/or sold as scrap?)*
- *When we need to, we refer to Marshall & Swift's data and analysis for salvage value.*
- *We require that the taxpayer supply historical data from like kind salvage disposals.*
- *We utilize a 10% of original cost figure. However, we generally treat salvage/scrap situations on a case by case basis utilizing available market data.*
- *Use a standard guideline. Deviate from standard guidelines when scrap value can be determined by the market.*
- *It is assessed at the minimum for its class. If a lower value is indicated it is determined on a case by case review.*
- *Sales data, auction reports, personal interviews, advertisements.*
- *County uses the definitions from the International Association of Assessing Officers Glossary, page 152, and the SBE AH 501 Glossary, page 148, along with the Salvage Value Table published by Marshall Valuation Service, Section 97, page 18, August 1997. If warranted a physical inspection of the property will be made and evaluated.*
- *Most often we use salvage percent good estimates obtained from Marshall Valuation Guide. These are arrayed by industry type. We also use data obtained directly from market and industry sources when such data is present.*
- *First we must know it is not in use. Then we determine value based on individual circumstances.*
- *10% of cost or less, estimated weight x price per ton.*
- *Case by case. Salvage or scrap value is usually between 0% and 10% of cost. Idle equipment is usually 10% to 15%.*
- *Historical data derived from audits, sales, trade-ins, and auctions.*
- *We use 10 % of cost as an estimate of the value of scrap or bone-yard equipment stocks.*
- *Salvage or scrap value typically falls in the 5-15% range based on review of sales of used equipment. The 10% minimum was established by this office sometime in the mid 1980's, based on audit data.*

- *Value is estimated based on appraisal judgement. Our County has no minimum % good, salvage or scrap value studies at the present.*
- *Determined by discussions with property owners and market documentation on a case by case basis.*
- *Estimate value 10% +/-.*
- *Usually information supplied by taxpayer.*
- *We've recently lowered our minimum percent good factors to 10% for most personal property with the exception of wine tanks and agricultural equipment. The 10% factor was based on other counties' practice and also based on some information we receive when reviewing accounts for (possible) over-assessments.*
- *Under special circumstances with information and documentation from the taxpayer adjustments may be made for the use of salvage value.*
- *Appraisal judgement, Marshall Valuation Service, and SBE Guidelines.*
- *In most cases, the use of a minimum percentage good factor by type of industry.*
- *By appraisal if no records are available.*
- *We review the type of equipment and based on information available to the Assessor's Office, we make a judgement decision.*
- *Case by case.*
- *Type of asset.*
- *Based on experience we use: scrap 10% & salvage 20%.*
- *Physical inspection of personal property.*
- *We use minimum percent good or data, if acceptable, from taxpayer.*

Fixtures

6) Do you believe application of a minimum percent good in the valuation of fixtures is appropriate?

Yes 50

No 1

Yes & No 1

If not, why?

- *Yes. Cost of replacement is greater with fixtures.*
- *No. Property should be assessed at its value, not at some arbitrary number.*
- *Yes & No. Yes, if data supports a minimum. No, if data has not been captured. Without data use of minimum percent good is not consistent with method used to derive AH 581.*

7) Does your county use minimum percent good factors for computing assessed values of fixtures?

Yes 50

No 2

8) If minimum percent good factors are used for valuation of fixtures, is a standard minimum used for all fixtures?

Yes 27

No 23

N/A 2

9) If your county uses a standard minimum percent good factor for valuation of fixtures, what is the minimum used?

N/A 25

Number of Counties using:

a. 5% 0

d. 30% 2

b. 10% 5

e. 40% 0

c. 20% 11

f. other

15% 1

25% 5

35% 1

125% of estimated life 1

(One County did not respond to this question.)

10) How does your county determine salvage or scrap value of fixtures?

- *10% of the historical cost or actual sale of scrap is used when the fixed equipment is no longer useable. Fixtures are normally removed from scrap iron or sold when no longer useable.*
- *10% or less.*
- *Physical inspection and discussion with taxpayers concerning specific situations; market data is available.*
- *The use of minimum percent good factors as a guideline together with sound appraisal judgement based upon the best available information.*

- *Case by case.*
- *Estimate (usually 7% - 10%)*
- *We use the State % good factors and Marshall Swift personal property depreciation.*
- *By individual appraisal when brought to our attention by a taxpayer.*
- *Minimum percent good (response by 2 counties).*
- *On an individual basis incorporating inspection, discussion with taxpayer and checking market data.*
- *Generally follow AH 571. 5-15% good based on information provided.*
- *Market value of cannibalized salvage parts less removal cost.*
- *We try to determine the value based on the market conditions and relate it to a percentage of cost.*
- *We use minimum percent good, or data, if acceptable from the taxpayer.*
- *We don't. Minimum value is not equal to scrap value.*
- *10% to 20% depending on fixture type. (What is its usefulness to the business?)*
- *10% of RCN.*
- *Case by case. Item suitable for parts? In use? Net value or a cost to haul away?*
- *10% of original cost.*
- *When needed, which is rare, we refer to Marshall & Swift for data and analysis.*
- *We require that the taxpayer supply historical data from like kind salvage disposals.*
- *We utilize a 10% of original cost figure. However, we generally treat salvage/scrap situations on a case by case basis utilizing available market data.*
- *Use a standard guideline. Deviate from standard guidelines when scrap value can be determined by the market.*
- *It is assessed at the minimum for its class. If a lower value is indicated it is determined on a case by case review.*
- *Personal observation and sales data.*
- *County uses the definitions from the International Association of Assessing Officers Glossary, page 152, and the SBE AH 501 Glossary, page 148, along with the Salvage Value Table published by Marshall Valuation Service, Section 97, page 18, August 1997. If warranted a physical inspection of the property will be made and evaluated.*
- *Most often we use salvage percent good estimates obtained from Marshall Valuation Guide. These are arrayed by industry type. We also use data obtained directly from market and industry sources when such data is present.*
- *First we must know it is not in use. Then we determine value based on individual circumstances.*
- *10% of cost or less, estimated weight x price per ton.*
- *Case by case. Salvage or scrap value is usually between 0% and 10% of cost. Idle equipment is usually 10% to 15%.*
- *Historical data.*
- *Do not.*
- *Either 10% of cost or appraisal, if available.*

- *10% was established in this office during the mid 1980's, and resulted from analysis of data obtained during the audit process.*
- *Value is estimated based on appraisal judgement. Our county has no minimum % good, salvage or scrap value studies at the present.*
- *Determined by discussions with property owners and market documentation on a case by case basis.*
- *Estimate value 10% +/-.*
- *Usually information supplied by taxpayer.*
- *Based on past practice. I don't know how my predecessors determined the percentage for salvage/scrap value of fixtures.*
- *Individual analysis based on information and documentation provided by the assessee.*
- *Appraisal judgement, Marshall Valuation Service, and SBE guidelines.*
- *Appraisal, in the absence of records.*
- *We ask taxpayer for their opinion of value of obsolete equipment on site.*
- *Same as personal property - on an individual basis.*
- *Case by case.*
- *Type of fixture.*
- *Scrap 10% & Salvage 20%*
- *Physical inspection.*
- *Determine value based on market conditions and relate it to a percentage of cost.*

Personal Property and Fixtures

11) If a standard minimum percent good factor is *not* used for all types of property, is the minimum based on property type or economic life of the property?

- (a) **Property Type** 36
- (b) **Economic Life** 15
- (c) **N/A** 9

(Some counties use both property type and economic life to determine the minimum percent good.

12) If the minimum percent good factor is based on *property type*, please list the property classifications with corresponding minimum percent good factor.

See Chapter 3 (Factor Range) for data. The data received in response to questions 12 and 13 are presented in the form of tables and graphs.

13) If the minimum percent good factor is based on *economic life* of the property, please list the economic life of the property with the corresponding minimum percent good factor.

See Chapter 3 (Factor Range) for data. The data received in response to questions 12 and 13 are presented in the form of tables and graphs.

14) If minimum percent good factors are used by your county, why are they being used?

- *Because any fixtures or equipment in use have an owner or user recognized (because it is still in use) utility value.*
- *Older equipment, still in use, has a value above what the RCLND tables would indicate.*
- *The value in use for business equipment and fixtures presumes that if equipment is still being used, it has a value relative to the cost of replacing with new. By stopping the trending at 125% of expected service life and continue to reduce the % Good, a salvage value is the result.*
- *As an administrative convenience given the time constraints and available personnel in our mass appraisal system.*
- *We believe our minimum fairly and accurately reflects value.*
- *Discussion with other counties that have better data than us. Also, prior SBE employee instructed me in this procedure.*
- *Convenience and equity.*
- *We feel that if an asset is being used regardless of age it still has value.*
- *Property reaches a threshold where it still has utility to business equal to cost of disposal and cost of efforts to find, secure, install and implement new replacement equipment.*
- *Attempt to recognize minimum value.*
- *Based upon theory that equipment in use still has value if it creates income for business.*
- *Minimum percent good as provided by published SBE tables.*
- *To account for salvage or scrap value.*
- *Because common sense tells us that if an item is in use and generating income, it will never have a zero value.*
- *Property in use has a value greater than 15% of original cost in a mass appraisal approach.*

- *If property is contributing to the generation of an income stream we feel it has a quantifiable value.*
- *Equipment must have minimal amount of maintenance to remain in service.*
- *In a mass appraisal process it has proven accurate and efficient. A list of equipment often includes under stated acquisitions (trade-ins, etc.). Minimum values avoid under assessments of total.*
- *Due to maintenance to keep the equipment operational.*
- *We feel that as long as an asset is being used it has some value.*
- *Tangible assets, if used in a business and are in use/in place, provide economic benefit to the operation and thus maintain a certain minimum value regardless of age.*
- *Basis: if the asset would have scrap and/or salvage value, the minimum percent good has to be higher because of utility. The minimum percent good based upon the old AH 571.*
- *It was determined that older equipment in our county was being sold for amounts in excess of our factored values so a minimum percent good was established by category.*
- *Arms length sales data information supports a minimum or floor value for used equipment.*
- *Under a mass appraisal system a minimum percent good factor is necessary to reflect the value of property approaching the end of its economic utility. Using a minimum percent good factor enhances the equalization process by assigning a similar percent good factor to like personal property and fixtures. However, critical to this is allowing the appraiser to change the minimum percent good, as appropriate, to arrive at the correct market value.*
- *To administer the mass appraisal of personal property and fixture.*
- *We are in the business of estimating full cash value. In our opinion, equipment that is still in use reaches a minimum value. Although we hold values at our minimum percent of historical cost, perhaps older equipment should start rising in value after it passes its economic life to counter the effects of long-term inflation.*
- *There is value as long as the equipment continues to contribute to income generation of particular business assessed and/or businesses industry-wide.*
- *On a mass appraisal basis and with scrap, salvage, or idle equipment worth 0-15% of cost, we believe that equipment in use would be worth at least 20% of original cost.*
- *To determine true market value.*
- *(1) Because if you are still using it, it must have value. (2) Ease in calculating trended values.*
- *As a practical means of estimating the value of groups of old equipment.*
- *Assets still in use, and contributing to the generation of income, have some value. A minimum percent good recognizes that contribution.*

- *The presumption has been that all equipment has some minimum or salvage value remaining at the end of its primary economic life expectancy. Our county is also limited by current systems capacity to twenty-three composite factor entries per each equipment category. We hope that this problem will be resolved with the new Megabyte MPTS 2000+ computer program.*
- *To allow for market value appraisals of some older equipment without increasing the service life assigned to the total equipment plant.*
- *To equalize values among all taxpayers.*
- *If no minimum percent good factors are used, property value will be depreciated to 1 or 2 percent which is unrealistic for most property.*
- *All equipment in use is felt to make a value contribution. This system was felt to result in the most equitable value estimate.*
- *Because if property is still in use, it has value for property tax purposes. In mass appraisal, it's necessary to categorize property.*
- *They are used to estimate the value of the items. The older the costs, the harder it is to estimate the value of the items.*
- *They are used because we recognize there is still value in the equipment being used by taxpayer and our office cannot investigate very class of assets to determine more appropriate measures of value for these older assets.*
- *Our policy is as long as the equipment is in use it has value.*
- *Minimum percent prevents short-lived equipment retained beyond its economic life from having a higher value than long-lived equipment. Minimum percent good also reflects the value of replacement deferral.*
- *If the item is being used, it is believed to maintain a minimum value.*
- *Because equipment that is still in use must be serviceable and the percent good tables may not accurately reflect the value in use.*
- *This county has used minimum percent (30) for many years as the previous Assessor and current Assessor feels that as long as the equipment is in use it has minimum percent good utility.*

15) If minimum percent good factors are used by your county, how are the factors determined?

- *The minimum percent good factors were determined by discussions with users as well as general appraisal experience.*
- *Used farm equipment sales have been reviewed to set the minimums for farm equipment. The used equipment publications have been used for construction and farm equipment. Trade-ins on new equipment are another source of minimum values.*
- *Appraiser opinion.*
- *Factor as computed from tables in current Assessor Handbook 581. 120% of estimated service life. Never lower than 10% good.*
- *Based on years of experience.*
- *Once the combined rates of % good and index reaches or falls below 20 %, that is when we stop.*

- *Estimated (maybe), or based on practices of other counties, or based on SBE recommendations.*
- *SBE 581*
- *Best estimate*
- *Mostly arbitrary determination dating back 30+ years.*
- *The minimum was determined over 30 years ago and has not been challenged by the taxpayers.*
- *Follow AH 571 pg. 77; use the R-3 curve down to 20% based on life and then trend.*
- *Estimate of equipment core value plus 50% of estimated repair cycle costs.*
- *For each type of property a trending factor is used that relates to 125% of economic life for cost index (inflation) and percent good.*
- *In use of the tables with combined factors for each specific property type.*
- *Computer-State, all other -Survey.*
- *Based on AH 581.*
- *Roughly 1.25% of economic life of factor table. Cutoff usually between 12% to 22% depending on equipment.*
- *From SBE, AH 581, and State Board letters.*
- *We feel that as long as an asset is being used it has some value.*
- *Equipment Index Factor x Equipment Percent Good Factor*
- *We calculate a combined factor using an appropriate trend (inflation) factor and a percent good. The combined factor is calculated for each acquisition year carried down to a minimum 25%. The 25% figure is a combined trend factor and percent good percentage.*
- *Based on the old AH 571 guidelines.*
- *Experience, discussions with other counties, and industry price guides.*
- *Sales data, audits, discussions with business owners.*
- *We reviewed the salvage values listed by Marshall Valuation Service and selected 15% to represent the minimum percent good for property that is not yet salvage or scrap, but approaching the end of its economic life.*
- *The minimum percent good used is based on the economic life of the property group. It is determined by multiplying the economic life by 125% to arrive at an age and using, as a minimum percent good, the figure on the R-3 curve in AH 581 for the determined age.*
- *Category trending factor times category depreciation percentage.*
- *Historical sales data, auction prices, and trade-in values.*
- *They are not computed. They simply represent a practical and generally equitable method of mass appraisal using the cost approach. 25% is the figure we have selected and used over 20 years.*
- *Ten percent has been in use since the mid 1980's, and we have seen no compelling evidence that the factors should be either higher or lower, with the exception of computer.*

- *When the Business Division prepares the composite factor tables they are extended to the point where there are not material % differences for several years. It has been assumed that at this point the estimated minimum/salvage value occurs.*
- *Market data and documentation during audit process.*
- *Derived by using AH 581 as a guide and starting point.*
- *Percentage at 125% of economic life and then compared with prior years.*
- *Minimum percent good factors are determined by taking the index factors times percent good factors for each average service life. Factors lower than 10% are assigned 10% minimum.*
- *The minimum percent good factor is the factor for an age equal to 125% of the estimated average service life.*
- *Appraisal judgement, Marshall Valuation Service, SBE guidelines.*
- *We use Marshall Valuation Service to estimate the minimum percentage good.*
- *Principal Auditor-Appraisers review and make determination as to what minimum value should be used.*
- *Using the AH 581 as a guideline the factor tables are developed. We then apply the minimum percent good at approximately 20%.*
- *An estimate of the net value of deferral replacement.*
- *Asset category and expected life.*
- *In comparison with other counties practices and experience with salvage and scrap value information from local sources.*
- *The factors are determined from the State Board Equipment index and percent good factors. All classification of equipment is 30% good except computers. This was long established many years ago and has not changed.*

16) Last year what was the percentage of appeals that were due to the application of minimum percent good factors in the valuation of personal property and fixtures?

Five counties responded indicating a percentage of appeals due to the application of a minimum percent good. The percentages reported included 15%, 3%, 0.6%, and 2 at 1%.

17) If there were appeals due to the application of minimum percent good factors, what were some of the issues and outcomes in these appeals?

- *Appeals not often made due to the use of minimum percent good factors. Outcomes of appeals are based upon the relevant facts and circumstances.*
- *Issue was that no minimum should be used. Outcome of the one appeal was in favor of the Assessor.*

- *We had a 1997 appeal on a printing operation where the use of a 25% minimum factor was questioned. The assessee obtained an appraisal of certain printing equipment, which, based on market evidence, indicate the 25% minimum did not accurately reflect the value of some older printing machines. The Assessor and the assessee stipulated on this appeal with the older machines valued at a percent good figure below the 25% minimum.*
- *Difficult to determine. Value issues might have been based on our minimum percent good.*
- *Issues: Factors too high, minimum percent good should be lower. Outcomes: Stipulation, Board upheld taxpayers.*
- *Lower value for high-tech equipment or semi-conductor equipment.*
- *The issue was mostly brought to the Assessment Appeals Board by tax agents because of a perceived opinion that our minimum percent good was too high. Some values were reduced.*
- *Unable to determine—it appears not to be an issue.*
- *(1 appeal since 1964) Tax representative stated that a minimum percent good factor was not appropriate citing AH 581. It was explained that we do not use a minimum percent good factor. We did use a minimum "valuation factor" in this case 20% of original cost on equipment that was functioning part of the production line and that the company was maintaining on equal par with their other assets. The Board found in favor of the Assessor with no reductions.*
- *Ever since we adopted Assessors' Association computer tables, no appeal was filed solely upon minimum percent factors.*
- *Only one appealed. Biopharmaceutical property: concerns were in the area on Interim lifing table. Pending further discussions.*

18) Please provide any general comments you may have regarding the application of minimum percent good in the valuation of personal property and fixtures.

- *Unless we have good compliance concerning the reporting of repairs and parts replacement, the well maintained used equipment would be under valued without the use of some form of minimum valuation.*
- *It is not reasonable, based on our experience with used equipment sales, to stop trending at 125% but continue to reduce the percent good. By doing this the resulting value soon approaches a salvage value or less even though the equipment continues to perform the business functions. Since most business operators maintain their equipment and expense the costs, the value of this maintenance is better represented by a minimum factor.*
- *In a mass appraisal system, minimum percent good factors are a necessary convenience. Minimum percent good are used as guidelines rather than as absolutes. Adjustments to values rendered using minimum percent good factors can be made, based on unique facts and circumstances.*
- *If a company continues to use a piece of equipment, we feel it still must have a value to that business.*

- *Personal property and fixtures being used or are contributing a value to the owner. Therefore, some minimal value needs to be estimated. Exceptions are dealt with on an individual basis.*
- *We have not done any analysis to support the application of a minimum percent good therefore know we are on shaky ground by doing so. We have been fortunate to have had only one appeal dealing with the subject and we were able to direct the Boards attention to the issue of value by down playing the minimum percent good issue.*
- *It would be helpful if the SBE could provide the counties with some guidance on this issue to promote more uniformity and consistency. If tangible assets are "in use/in place", they provide a benefit to a business and therefore have value. The current language in AH 581 "no minimum percent good intended" is an open invitation to inconsistent application of percent good factors.*
- *All equipment has residual value unless it is destroyed.*
- *If the taxpayer can provide thorough documentation that the market value is less than our minimum percent good factors, we will reduce it to market value.*
- *Revisit the policy of only going back 125% of the average life for trending. Maybe it should vary by industry group and asset type.*
- *I feel they are justified. If there are any considerations that are unique, i.e., general condition, obsolescence, etc., the value should be determined on a case by case basis.*
- *Without a minimum or floor value for personal property the appraised values would not reflect market value. Probably the best example is office furniture. Desks and files 30-40 years old command a used price nearly equal to their cost.*
- *I believe it is a necessity in the administration of the mass appraisal of personal property and fixtures.*
- *Minimum Percent Good can be justified using market data.*
- *In a county as small as this, it is not feasible to conduct studies ourselves. Therefore we rely on State guidelines. I believe however, 10% across the board does not accurately take into consideration economic lives or property types. I believe a sliding scale would be better.*
- *The minimum percent good is an important tool in estimating the value of groups of older equipment. Further precision is not needed as most taxpayers also have newer equipment that adds substantially to the value.*
- *In this area of the state, we have several metal re-cycling facilities. Much of the high tech equipment contains precious metals, and companies have staff assigned to oversee the recovery of these metals.*
- *The minimum percent good is less problematic than other subjects for factor analysis—it could be assigned a lower priority.*
- *A. It appears to me that this survey is focusing on a secondary issue. A decision on minimum percent good methodology is minor when the bigger issue of determining appropriate service lives is considered.*
- *B. If the appropriate life table is used, there should be very few assets remaining at the latter stage of their life expectancy. If on the other hand, many assets remain, the factor table chosen is most likely incorrect rather than a minimum percent good issue.*

- C. *The percent good factors, agriculture and construction tables provided by the SBE in the AH 581 DO NOT GO DOWN TO ZERO. Does this imply a minimum percent good?*
- D. *The counties that currently use the Megabyte System are limited to 23 entries in the factor schedule categories. This limitation prevents the Megabyte counties from inputting a full set of factors for 15-year service life, and automatically creates a minimum percent good value.*
- E. *Our County would like to participate in any studies on service lives and minimum percent good values. We are willing to help in whatever way possible.*
- *The 125% rule stops all indexing of older equipment but companies still continue to maintain and in some cases rebuild such equipment. Minimum valuation factors allow for an equitable appraisal of equipment from which a company is inuring benefit during its remaining useful life.*
 - *Not realistic to take value below 10% for most equipment. Furniture is good example; many offices have furniture with an age for in excess of the estimated economic life. By applying say a 20% minimum to the historical cost of this property is to acknowledge its utility but it is still probably under valued.*
 - *We use SBE factors mainly for convenience, but there's always the question: at what stage of usefulness is any equipment said to be only 10% good? How do you justify using anything lower than 10% good?*
 - *We believe it is a fair and equitable application.*
 - *All counties should use the same minimum factor that is appropriate for the type or economic life of equipment being assessed.*
 - *10% of cost is the typical scrap value standard used by most industries. On that basis a minimum 20% good for equipment in use would appear accurate. We will be interested in the results of this survey and will consider the results in establishing a minimum percent good for future assessments.*
 - *It is a good practice to maintain a minimum percent good factor for all equipment that is still in use. The fact that it is still in use, in spite of its age, it has value to the owner.*
 - *Our county would welcome any studies done on minimum percent good.*
 - *The application of a minimum percent good table for personal property is a range from 16% to 24% depending on the type of equipment. Taxpayers agree with our policy that there is a minimum value in the equipment used in their business.*
 - *We have found that in general, businesses agree that most assets retain some value even at the end of their useful life.*
 - *We don't believe the SBE percent good tables accurately reflect the market value of older equipment. Equipment still in use after many years has a higher value than that indicated by the percent good tables.*
 - *We use minimum percent good for valuation until a business changes ownership or sells their equipment. At that point, we do a field inspection of equipment to determine market value. If our opinion supports a salvage or scrap value we will use a lower percent good.*

19) Please provide any general comments you may have regarding the determination of salvage or scrap value of personal property and/or fixtures?

- *The Assessor is always open to information from the taxpayer that would be an indication of value. If our minimum percent good factors do not accurately measure the market value it may be due to excessive use, technological advances, market factors or any other reason. When the taxpayer makes us aware of the problem we adjust the values.*
- *Auditor-Appraisers always have the option to value property based upon the best available information and sound appraisal judgement. We are not limited to the cost approach to value.*
- *Follow AH 571, pg. 77. Final determination is based on information provided and appraiser's opinion.*
- *Determine salvage or scrap value by industry group or by asset type. Some industry groups and asset types may not have a salvage or scrap value. Also, the percent for salvage and scrap value may differ by industry group and asset type.*
- *Use minimum percent good.*
- *If the taxpayer can provide thorough documentation that the market value is less than minimum percent good factors, we will reduce it to market value.*
- *If factors are deemed inappropriate then the value needs to be determined based on the situation.*
- *Salvage or scrap can be handled using a flat percentage well under the minimum used for regular groups of old equipment.*
- *IRS guidelines use 10% as generally accepted salvage value.*
- *Salvage and/or scrap value is determined on a case by case basis in our County. What has been necessary is to determine the final disposition of the assets. What often times has been referred to as "scrap" has been sold on the secondary market and so its economic life continues.*
- *In order to determine the scrap value of personal property and/or fixtures, a physical inspection of the property may be needed along with written documentation.*
- *Salvage or scrap value should be based on information and documentation provided by the assessee. The assessee must document their intention to use the equipment for scrap or spare parts.*
- *We seldom encounter determinations of salvage or scrap value of personal property and/or fixtures. Taxpayers may declare idle equipment and provide their best estimate of sale as scrap.*
- *Again, we work with the taxpayer and using information available to this office, we determine a fair market value for salvage or scrap equipment.*
- *Scrap value information has been obtained in the past from reports of participants at auctions and companies going out of business.*
- *We can only determine salvage or scrap from our experience or opinion of what value it is worth by comparing like equipment from other like businesses.*

APPENDIX 3: 1999 PERCENT GOOD TABLES

This appendix includes copies of percent good tables as published in AH 581, January 1999 (use for the lien date, January 1, 1999). The table numbers refer to the numbering system in AH 581, the handbook from which they are copied. Tables 1, 2, and 3 (Equipment Index Factors) are not included in this report.

Machinery and Equipment Percent Good Factors (Table 4)

These factors are derived from a system developed by the Iowa State University Engineering Research Center. The rate of return used to compute these factors is calculated annually and is shown on the table.

Agricultural and Construction Mobile Equipment Percent Good Factors (Table 5)

These factors are derived from a detailed analysis of used equipment sales data.

Table 4: Machinery and Equipment Percent Good Factors

**INDIVIDUAL PROPERTIES--AVERAGE SERVICE LIFE
6.75% Rate of Return**

| Year | Acq'd | AGE | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 17 | 18 | 20 | 22 | 25 | 30 | 35 | 40 | AGE | Year | Acq'd |
|------|-------|-----|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------|------|------|-------|
| 1998 | 1 | 67 | 76 | 81 | 85 | 87 | 89 | 91 | 92 | 93 | 94 | 94 | 95 | 95 | 96 | 96 | 97 | 97 | 98 | 99 | 99 | 99 | 1 | 1998 | 1998 | |
| 1997 | 2 | 37 | 52 | 62 | 69 | 74 | 78 | 81 | 83 | 85 | 87 | 88 | 89 | 90 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 98 | 2 | 1997 | 1997 | |
| 1996 | 3 | 16 | 32 | 45 | 54 | 61 | 67 | 71 | 75 | 77 | 80 | 82 | 84 | 85 | 88 | 89 | 91 | 92 | 94 | 95 | 97 | 98 | 3 | 1996 | 1996 | |
| 1995 | 4 | 6 | 17 | 29 | 40 | 49 | 56 | 61 | 66 | 70 | 73 | 76 | 78 | 80 | 83 | 85 | 87 | 89 | 91 | 94 | 96 | 97 | 4 | 1995 | 1995 | |
| 1994 | 5 | 8 | 17 | 28 | 37 | 45 | 51 | 57 | 62 | 66 | 69 | 72 | 75 | 79 | 81 | 84 | 86 | 89 | 92 | 94 | 96 | 5 | 1994 | 1994 | | |
| 1993 | 6 | 2 | 10 | 18 | 27 | 35 | 42 | 49 | 54 | 59 | 63 | 66 | 69 | 74 | 76 | 80 | 83 | 86 | 90 | 93 | 95 | 6 | 1993 | 1993 | | |
| 1992 | 7 | 5 | 11 | 18 | 26 | 34 | 40 | 46 | 52 | 56 | 60 | 64 | 70 | 72 | 76 | 80 | 84 | 89 | 92 | 94 | 7 | 1992 | 1992 | | | |
| 1991 | 8 | 6 | 12 | 19 | 26 | 33 | 39 | 45 | 50 | 54 | 58 | 65 | 68 | 72 | 76 | 81 | 87 | 90 | 93 | 8 | 1991 | 1991 | | | | |
| 1990 | 9 | 2 | 8 | 13 | 19 | 26 | 32 | 38 | 43 | 48 | 53 | 60 | 63 | 69 | 73 | 78 | 85 | 89 | 92 | 9 | 1990 | 1990 | | | | |
| 1989 | 10 | 4 | 9 | 14 | 20 | 26 | 32 | 37 | 42 | 47 | 55 | 58 | 65 | 69 | 75 | 82 | 87 | 91 | 10 | 1989 | 1989 | | | | | |
| 1988 | 11 | 1 | 6 | 10 | 15 | 21 | 26 | 31 | 37 | 42 | 50 | 54 | 60 | 66 | 72 | 80 | 86 | 89 | 11 | 1988 | 1988 | | | | | |
| 1987 | 12 | 3 | 7 | 11 | 16 | 21 | 26 | 31 | 36 | 45 | 49 | 56 | 62 | 69 | 78 | 84 | 88 | 12 | 1987 | 1987 | | | | | | |
| 1986 | 13 | 4 | 8 | 12 | 17 | 22 | 26 | 31 | 41 | 45 | 52 | 59 | 66 | 76 | 82 | 87 | 13 | 1986 | 1986 | | | | | | | |
| 1985 | 14 | 1 | 6 | 9 | 13 | 17 | 22 | 27 | 36 | 40 | 48 | 55 | 63 | 73 | 81 | 86 | 14 | 1985 | 1985 | | | | | | | |
| 1984 | 15 | 3 | 7 | 11 | 14 | 18 | 23 | 32 | 36 | 44 | 51 | 60 | 71 | 79 | 84 | 15 | 1984 | 1984 | | | | | | | | |
| 1983 | 16 | 4 | 8 | 11 | 15 | 19 | 28 | 32 | 40 | 47 | 57 | 69 | 77 | 83 | 16 | 1983 | 1983 | | | | | | | | | |
| 1982 | 17 | 2 | 5 | 9 | 12 | 16 | 24 | 28 | 36 | 44 | 54 | 66 | 75 | 81 | 17 | 1982 | 1982 | | | | | | | | | |
| 1981 | 18 | 3 | 7 | 10 | 13 | 20 | 25 | 33 | 40 | 50 | 64 | 73 | 80 | 18 | 1981 | 1981 | | | | | | | | | | |
| 1980 | 19 | 1 | 4 | 8 | 11 | 17 | 21 | 29 | 36 | 47 | 61 | 71 | 78 | 19 | 1980 | 1980 | | | | | | | | | | |
| 1979 | 20 | 2 | 5 | 9 | 15 | 18 | 26 | 33 | 44 | 58 | 69 | 77 | 20 | 1979 | 1979 | | | | | | | | | | | |
| 1978 | 21 | 3 | 7 | 12 | 15 | 23 | 30 | 41 | 56 | 67 | 75 | 21 | 1978 | 1978 | | | | | | | | | | | | |
| 1977 | 22 | 1 | 4 | 11 | 14 | 20 | 27 | 37 | 53 | 65 | 73 | 22 | 1977 | 1977 | | | | | | | | | | | | |
| 1976 | 23 | 2 | 9 | 11 | 18 | 24 | 34 | 50 | 62 | 72 | 23 | 1976 | 1976 | | | | | | | | | | | | | |
| 1975 | 24 | 1 | 7 | 10 | 15 | 21 | 31 | 47 | 60 | 70 | 24 | 1975 | 1975 | | | | | | | | | | | | | |
| 1974 | 25 | 5 | 7 | 13 | 19 | 29 | 45 | 58 | 68 | 25 | 1974 | 1974 | | | | | | | | | | | | | | |
| 1973 | 26 | 2 | 6 | 12 | 17 | 26 | 42 | 55 | 66 | 26 | 1973 | 1973 | | | | | | | | | | | | | | |
| 1972 | 27 | 4 | 10 | 14 | 24 | 39 | 53 | 64 | 27 | 1972 | 1972 | | | | | | | | | | | | | | | |
| 1971 | 28 | 2 | 8 | 13 | 21 | 37 | 51 | 62 | 28 | 1971 | 1971 | | | | | | | | | | | | | | | |
| 1970 | 29 | 6 | 11 | 19 | 34 | 48 | 60 | 29 | 1970 | 1970 | | | | | | | | | | | | | | | | |
| 1969 | 30 | 4 | 10 | 18 | 32 | 46 | 58 | 30 | 1969 | 1969 | | | | | | | | | | | | | | | | |
| 1968 | 31 | 2 | 7 | 16 | 29 | 43 | 56 | 31 | 1968 | 1968 | | | | | | | | | | | | | | | | |
| 1967 | 32 | 1 | 6 | 14 | 27 | 41 | 54 | 32 | 1967 | 1967 | | | | | | | | | | | | | | | | |
| 1966 | 33 | 5 | 13 | 25 | 39 | 52 | 33 | 1966 | 1966 | | | | | | | | | | | | | | | | | |
| 1965 | 34 | 2 | 11 | 23 | 37 | 50 | 34 | 1965 | 1965 | | | | | | | | | | | | | | | | | |
| 1964 | 35 | 1 | 9 | 21 | 35 | 48 | 35 | 1964 | 1964 | | | | | | | | | | | | | | | | | |
| 1963 | 36 | 8 | 20 | 32 | 46 | 36 | 1963 | 1963 | | | | | | | | | | | | | | | | | | |
| 1962 | 37 | 6 | 18 | 30 | 43 | 37 | 1962 | 1962 | | | | | | | | | | | | | | | | | | |
| 1961 | 38 | 4 | 16 | 28 | 42 | 38 | 1961 | 1961 | | | | | | | | | | | | | | | | | | |
| 1960 | 39 | 2 | 15 | 27 | 39 | 39 | 1960 | 1960 | | | | | | | | | | | | | | | | | | |

Table 5: Agricultural and Construction Mobile Equipment Percent Good Factors

| Year Acquired | Age | CONSTRUCTION MOBILE EQUIPMENT | | AGRICULTURAL MOBILE EQUIPMENT | | | | Age |
|---------------|-----|-------------------------------|------|-------------------------------|------|------------|------|-----|
| | | | | EXCEPT HARVESTERS | | HARVESTERS | | |
| | | New | Used | New | Used | New | Used | |
| 1998 | 1 | 74 | 91 | 78 | 92 | 74 | 90 | 1 |
| 1997 | 2 | 66 | 81 | 70 | 82 | 64 | 78 | 2 |
| 1996 | 3 | 60 | 74 | 64 | 75 | 57 | 69 | 3 |
| 1995 | 4 | 55 | 68 | 58 | 68 | 50 | 60 | 4 |
| 1994 | 5 | 51 | 62 | 52 | 62 | 43 | 53 | 5 |
| 1993 | 6 | 47 | 58 | 47 | 56 | 38 | 46 | 6 |
| 1992 | 7 | 42 | 52 | 42 | 50 | 33 | 40 | 7 |
| 1991 | 8 | 38 | 47 | 38 | 45 | 29 | 35 | 8 |
| 1990 | 9 | 35 | 43 | 34 | 40 | 25 | 30 | 9 |
| 1989 | 10 | 31 | 38 | 30 | 36 | 21 | 26 | 10 |
| 1988 | 11 | 28 | 34 | 27 | 32 | 19 | 23 | 11 |
| 1987 | 12 | 26 | 32 | 25 | 30 | 17 | 21 | 12 |
| 1986 | 13 | 24 | 29 | 23 | 28 | 15 | 18 | 13 |
| 1985 | 14 | 22 | 27 | 22 | 26 | | 16 | 14 |
| 1984 | 15 | 20 | 25 | 20 | 23 | | 14 | 15 |
| 1983 | 16 | 19 | 23 | 18 | 21 | | 14 | 16 |
| 1982 | 17 | 16 | 20 | | 19 | | | 17 |
| 1981 | 18 | 13 | 17 | | 17 | | | 18 |
| 1980 | 19 | 12 | 13 | | | | | 19 |
| 1979 | 20 | 11 | 11 | | | | | 20 |
| 1978 | 21 | | 9 | | | | | 21 |

NO MINIMUM PERCENT GOOD INTENDED

USE OF TABLE 5

The percent good table is designed to assist the appraiser in determining total loss of value once replacement cost new (RCN) has been determined for the captioned equipment.

The table, derived from used equipment sales data, identifies a pattern of depreciation for three groups of equipment. Within each group two columns of percent good figures, "New" and "Used" are listed. The column labeled "New" should be used to measure depreciation if the subject property was acquired new; conversely, the column labeled "Used" should be applied when the equipment was purchased used.

APPENDIX 4: CONSTITUTIONAL AND STATUTORY EXCERPTS²⁹

CALIFORNIA CONSTITUTION

Article XIII

SECTION 1. Taxable property. Unless otherwise provided by this Constitution or the laws of the United States.

(a) All property is taxable and shall be assessed at the same percentage of fair market value. When a value standard other than fair market value is prescribed by this Constitution or by statute authorized by this Constitution, the same percentage shall be applied to determine the assessed value. The value to which the percentage is applied, whether it be the fair market value or not, shall be known for property tax purposes as the full value.

(b) All property so assessed shall be taxed in proportion to its full value.

REVENUE AND TAXATION CODE SECTIONS

Part 1. Chapter 1.

110. **“Full cash value.”** (a) Except as is otherwise provided in Section 110.1, “full cash value” or “fair market value” means the amount of cash or its equivalent that property would bring if exposed for sale in the open market under conditions in which neither buyer nor seller could take advantage of the exigencies of the other, and both the buyer and the seller have knowledge of all of the uses and purposes to which the property is adapted and for which it is capable of being used, and of the enforceable restrictions upon those uses and purposes.

(b) For purposes of determining the “full cash value” or “fair market value” of real property, other than possessory interests, being appraised upon a purchase, “full cash value” or “fair market value” is the purchase price paid in the transaction unless it is established by a preponderance of the evidence that the real property would not have transferred for that purchase price in an open market transaction. The purchase price shall, however, be rebuttably presumed to be the “full cash value” or “fair market value” if the terms of the transaction were negotiated at arms length between a knowledgeable transferor and transferee neither of which could take advantage of the exigencies of the other. “Purchase price,” as used in this section, means the total consideration provided by the purchaser or on the purchaser’s behalf, valued in money, whether paid in money or otherwise. There is a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if

²⁹This appendix contains the statutes relevant to the discussions in this report as of the date of publication. The reader is cautioned that the statutory language presented may not reflect current statute.

the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration. If a single transaction results in a change in ownership of more than one parcel of real property, the purchase price shall be allocated among those parcels and other assets, if any, transferred based on the relative fair market value of each.

(c) For real property, other than possessory interests, the change of ownership statement required pursuant to Section 480, 480.1, or 480.2, or the preliminary change of ownership statement required pursuant to Section 480.4, shall give any information as the board shall prescribe relative to whether the terms of the transaction were negotiated at “arms length.” In the event that the transaction includes property other than real property, the change in ownership statement shall give information as the board shall prescribe disclosing the portion of the purchase price that is allocable to all elements of the transaction. If the taxpayer fails to provide the prescribed information, the rebuttable presumption provided by subdivision (b) shall not apply.

(d) Except as provided in subdivision (e), for purposes of determining the “full cash value” or “fair market value” of any taxable property, all of the following shall apply:

(1) The value of intangible assets and rights relating to the going concern value of a business using taxable property shall not enhance or be reflected in the value of the taxable property.

(2) If the principle of unit valuation is used to value properties that are operated as a unit and the unit includes intangible assets and rights, then the fair market value of the taxable property contained within the unit shall be determined by removing from the value of the unit the fair market value of the intangible assets and rights contained within the unit.

(3) The exclusive nature of a concession, franchise, or similar agreement, whether de jure or de facto, is an intangible asset that shall not enhance the value of taxable property, including real property.

(e) Taxable property may be assessed and valued by assuming the presence of intangible assets or rights necessary to put the taxable property to beneficial or productive use.

(f) For purposes of determining the “full cash value” or “fair market value” of real property, intangible attributes of real property shall be reflected in the value of the real property. These intangible attributes of real property include zoning, location, and other attributes that relate directly to the real property involved.

110.5. **“Full value.”** “Full value” means fair market value, full cash value, or such other value standard as is prescribed by the Constitution or in this code under the authorization of the Constitution.

Part 1. Chapter 3.

401. **Ratio of assessed to full value.** Every assessor shall assess all property subject to general property taxation at its full value.

APPENDIX 5: PROPERTY TAX RULES³⁰

Title 18, Public Revenue

California Code of Regulations

Rule 2. THE VALUE CONCEPT.

References: Article 2, Chapter 3, Part 2, Division 1, Revenue and Taxation Code.
Sections 110, 110.1, 401, Revenue and Taxation Code.

(a) In addition to the meaning ascribed to them in the Revenue and Taxation Code, the words “full value,” “full cash value,” “cash value,” “actual value,” and “fair market value” mean the price at which a property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of the exigencies of the other. When applied to real property, the words “full value”, “full cash value”, “cash value”, “actual value” and “fair market value” mean the prices at which the unencumbered or unrestricted fee simple interest in the real property (subject to any legally enforceable governmental restrictions) would transfer for cash or its equivalent under the conditions set forth in the preceding sentence.

(b) When valuing real property (as described in paragraph (a)) as the result of a change in ownership (as defined in Revenue and Taxation Code, Section 60, et seq.) for consideration, it shall be rebuttably presumed that the consideration valued in money, whether paid in money or otherwise, is the full cash value of the property. The presumption shall shift the burden of proving value by a preponderance of the evidence to the party seeking to overcome the presumption. The presumption may be rebutted by evidence that the full cash value of the property is significantly more or less than the total cash equivalent of the consideration paid for the property. A significant deviation means a deviation of more than 5% of the total consideration.

(c) The presumption provided in this section shall not apply to:

- (1) The transfer of any taxable possessory interest
- (2) The transfer of real property when the consideration is in whole, or in part, in the form of ownership interests in a legal entity (e.g., shares of stock) or the change in ownership occurs as the result of the acquisition of ownership interests in a legal entity.
- (3) The transfer of real property when the information prescribed in the change in ownership statement is not timely provided.

³⁰ This appendix contains property tax rules relevant to the discussions in this report as of the date of publication. The reader is cautioned that the statutory language presented may not reflect current statute.

(d) If a single transaction results in a change in ownership of more than one parcel of real property, the purchase price shall be allocated among those parcels and other assets, if any, transferred based on the relative fair market value of each.

History: Adopted June 21, 1967, effective July 23, 1967.
Amended December 17, 1975, effective January 25, 1976.
Amended October 9, 1984, effective September 20, 1985.
Amended July 24, 1991, effective September 25, 1991.

Rule 3. VALUE APPROACHES.

References: Article 2, Chapter 3, Part 2, Division 1, Revenue and Taxation Code.
Sections 110, 401, Revenue and Taxation Code.

In estimating value as defined in section 2, the assessor shall consider one or more of the following, as may be appropriate for the property being appraised:

(a) The price or prices at which the property and comparable properties have recently sold (the comparative sales approach).

(b) The prices at which fractional interests in the property or comparable properties have recently sold, and the extent to which such prices would have been increased had there been no prior claims on the assets (the stock and debt approach).

(c) The cost of replacing reproducible property with new property of similar utility, or of reproducing the property at its present site and at present price levels, less the extent to which the value has been reduced by depreciation, including both physical deterioration and obsolescence (the replacement or reproduction cost approach).

(d) If the income from the property is regulated by law and the regulatory agency uses historical cost or historical cost less depreciation as a rate base, the amount invested in the property or the amount invested less depreciation computed by the method employed by the regulatory agency (the historical cost approach).

(e) The amount that investors would be willing to pay for the right to receive the income that the property would be expected to yield, with the risks attendant upon its receipt (the income approach).

History: Adopted June 21, 1967, effective July 23, 1967.

Rule 6. THE REPRODUCTION AND REPLACEMENT COST APPROACHES TO VALUE.

Reference: Sections 110, 401, Revenue and Taxation Code.

(a) The reproduction or replacement cost approach to value is used in conjunction with other value approaches and is preferred when neither reliable sales data (including sales of fractional interests) nor reliable income data are available and when the income from the property is not so regulated as to make such cost irrelevant. It is particularly appropriate for construction work in progress and for other property that has experienced relatively little physical deterioration, is not misplaced, is neither over- nor underimproved, and is not affected by other forms of depreciation or obsolescence.

(b) The reproduction cost of a reproducible property may be estimated either by (1) adjusting the property's original cost for price level changes and for abnormalities, if any, or (2) applying current prices to the property's labor and material components, with appropriate additions for entrepreneurial services, interest on borrowed or owner-supplied funds, and other costs typically incurred in bringing the property to a finished state (or to a lesser state if unfinished on the lien date). Estimates made under (2) above may be made by using square-foot, cubic-foot, or other unit costs; a summation of the in-place costs of all components; a quantity survey of all material, labor, and other cost elements; or a combination of these methods.

(c) The original cost of reproducible property shall be adjusted, in the aggregate or by groups, for price level changes since original construction by multiplying the cost incurred in a given year by an appropriate price index factor. When detailed investment records are unavailable for earlier years or when only a small percentage of the total investment is involved, the investments in such years may be lumped and factored to present price levels by means of an index number that represents the assessor's best judgment of the weighted average price change. If the property was not new when acquired by its present owner and its original cost is unknown, its acquisition cost may be substituted for original cost in the foregoing calculations.

(d) The replacement cost of a reproducible property may be estimated as indicated in (b)(2) of this section by applying current prices to the labor and material components of a substitute property capable of yielding the same services and amenities, with appropriate additions as specified in subsection (b)(2).

(e) Reproduction or replacement cost shall be reduced by the amount that such cost is estimated to exceed the current value of the reproducible property by reason of physical deterioration, misplacement, over- or underimprovement, and other forms of depreciation or obsolescence. The percentage that the remainder represents of the reproduction or replacement cost is the property's percent good.

(f) When the allowance made pursuant to paragraph (e) exceeds the amount included in the depreciation tables used by the assessor, the reasons therefor shall be noted in the appraisal record for the property and the amount thereof shall be ascertainable from the record.

History: Adopted September 1, 1967, effective October 7, 1967.
Amended February 16, 1970, effective March 26, 1970.
Amended February 18, 1971, effective March 24, 1971.
Amended February 16, 1977, effective February 18, 1977.
Amended December 19, 1997, effective January 18, 1998.

APPENDIX 6: COURT CASE SUMMARIES

Bauer-Schweitzer Malting Co., Inc., v. City and County of San Francisco (1973) 8 Cal.3d 942. The assessor has the duty to assess all taxable property at a uniform ratio of its full cash value. To the extent that property has been assessed at an assessment ratio lower than the ratio properly established by the assessor for a particular year such property has escaped assessment, and upon discovery an escaped assessment must be made. The rule applies although the taxpayer has accurately reported the cost or value figures of the property.

Bret Harte Inn, Inc. v. City and County of San Francisco (1976) 16 Cal.3d 14. An assessor's practice of employing the cost method by discounting original acquisition cost by a uniform "depreciation factor" of 50 percent for all properties, regardless of age or condition, is arbitrary, in excess of the assessor's discretion, and in violation of the constitutional and statutory requirements that all property subject to taxation be assessed at its full cash value because it effectively abandons any attempt to distinguish among individual properties with respect to their then current value.

GLOSSARY OF TERMS

| <u>Term</u> | <u>Definition</u> |
|-------------------------------|---|
| Assessable Value | The taxable value of a property against which the tax rate is applied. |
| Average Service Life | The average life term of a group of items. |
| Depreciation | A decrease in utility resulting in a loss in property value; the difference between estimated replacement or reproduction cost new as of a given date and market value as of the same date. There are three principal categories of depreciation; physical deterioration, functional obsolescence, and external obsolescence. |
| Equipment Index Factor | Multiplier used to "trend" the historical cost of property to an estimated replacement cost new. |
| Historical Cost | The total cost of a property when it was originally constructed or purchased. |
| Minimum Percent Good | Percent good factors utilized to estimate the lowest value that a property will attain during the useful life of the property. |
| Percent Good | The complement of depreciation; if a property is 20 percent depreciated, its percent good is 80 percent. Percent good refers to the portion of benefits remaining in an asset compared to the total benefits when new. |
| Replacement Cost | The cost required to replace an existing property with a property that has equivalent utility. |
| Reproduction Cost | The cost required to reproduce an exact replica of an existing property. |
| Salvage Value | The value of property at the end of its economic life in its present use. |
| Scrap Value | The price expected for a part of a property that is sold and removed from the premises to reclaim the value of the material which it is made, e.g., plumbing fixtures sold for their metal content. |
| Service Life | Period of time (or service) extending from the date of installation to the date of retirement from service. |
| Value | The power of one commodity to command other commodities in exchange; present worth of future net benefits. |

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