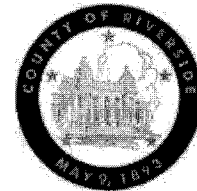


SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



ITEM
3.6
(ID # 3682)

MEETING DATE:

Tuesday, March 14, 2017

FROM : ASSESSOR-COUNTY-CLERK-RECORDER:

SUBJECT: ASSESSOR-COUNTY CLERK-RECORDER: Aircraft Assessment Memorandum of Understanding Between California Counties on the Assessment of Airline Property [District All, 0%]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Endorse the Assessor-County Clerk- Recorder's agreement to the Aircraft Assessment Memorandum of Understanding as a valuation method for commercial aircraft carriers; and
2. Support the Assessor-County Clerk- Recorder's participation with the statewide Assessor's Association to evaluate future steps that the counties may take to formalize a centralized procedure for the valuation and audit of air carriers.

ACTION: (Consent)


Peter Aldana 2/27/2017

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Washington, seconded by Supervisor Ashley and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Tavaglione, Washington and Ashley
Nays: None
Absent: None
Date: March 14, 2017
xc: ACR

Kecia Harper-Ihem
Clerk of the Board

By 
Deputy

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year:	2017/2018

C.E.O. RECOMMENDATION:

BACKGROUND:

Summary

On December 31, 2016, Revenue and Taxation Code sections ("Prior Law") that created a centralized system for the assessment of airline business personal property, were repealed. (Revenue and Taxation §§1150 thru 1156, 401.17, 441(m), and 1153.5.) The Prior Law required that county assessors and commercial air carriers use a "one statement one audit" procedure that allowed commercial air carriers operating in multiple airport locations in California to file a single consolidated property statement with a designated county assessor. The lead county assessor then transmitted the statement to the assessors of counties where the carrier operated. The lead county would also direct the audit team which would complete the single audit of the air carriers and transmit the audit to the other assessors.

After the Prior Law was repealed on December 31, 2016 each county assessor was required to assess and audit the total aircraft fleet value for each airline operating in the county at fair market value, as defined by Revenue and Taxation Code § 110. This results in multiple counties completing duplicative assessments and audits of air carriers.

The county assessors, utilizing the Assessors Association, determined that it was in the best interests of their respective offices, to establish a cooperative valuation procedure that would reduce the duplication of work by multiple Assessor Offices. The resulting Aircraft Assessment Memorandum of Understanding's ("MOU") administrative, valuation and audit procedures closely follows the requirements of the Prior Law, and is attached as Exhibit A.

The MOU is the first step to a formal centralized system for the valuation and audit of commercial air carriers. At this time eighteen county assessors have agreed to cooperate in accordance with the Aircraft Assessment Memorandum of Understanding. (See Exhibit B) The Assessors are exploring future options, such as creating a Joint Powers Authority for the assessment of air carriers and developing and presenting solutions to the State Board of Equalization and the State Legislature.

The Assessor-County Clerk-Recorder requests that the Board of Supervisors endorse his agreement to and participation under the Aircraft Assessment Memorandum of Understanding as a valuation method, and support ACR in continuing to work with the Assessor's Association

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

in evaluating future options the counties may consider to formalize a centralized procedure for the valuation and audit of air carriers. The ACR will present future steps to the Board of Supervisors as necessary to move forward with these efforts.

Impact on Residents and Businesses

The Aircraft Assessment Memorandum of Understanding will continue the effective assessment and audit process for air carriers by preventing the duplication of work. The result of the MOU is that the Assessor would maintain the procedures that have been in place in the Prior Law since 2005. In the absence of current legislation, this MOU provides for continuity and consistency of assessment by the Participating Assessors. In addition, the MOU will benefit the commercial air craft carriers operating in Riverside County by only subjecting the carriers to a single valuation and audit within the state, as has been the case, thus reducing the time and labor necessary to cooperate with the property taxation process.

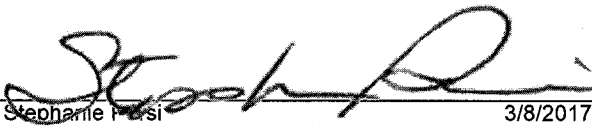
Fiscal Information

The MOU would have no impact on the budget because it simply keeps in place the existing procedures and staffing needs. Without the MOU, additional staffing would be required.

ATTACHMENT

EXHIBIT A. Aircraft Assessment Memorandum of Understanding

EXHIBIT B. List of County Assessors that have agreed to the Aircraft Assessment Memorandum of Understanding


Stephanie P. Priano

3/8/2017


Gregory V. Priamos, Director County Counsel

2/27/2017

Aircraft Assessment Memorandum of Understanding

This Memorandum of Understanding (MOU) by county assessors in the State of California is provided for the purpose of coordinating aircraft assessments of commercial air carriers amongst county assessors, establishing uniform methodology for the assessment of the aircraft, and streamline administrative procedures consistent with current Revenue and Taxation Code Sections 1150 through 1156 (the "Statutes") and former Revenue and Taxation Code Sections 401.17, 441, subdivision (m), and 1153.5 as enacted by Assembly Bill 1157 in 2015 (Stats 2015, c. 440) (the "Prior Law").

Recitals/Background

WHEREAS, the county assessors participating in this MOU (hereinafter known as "Participating Assessors") hereto desire to propose detailed direction for the purpose of coordinating certain investigatory, auditing and appraisal services among themselves with regard to certificated air carrier property consistent with the Statutes and the process provided for under the Prior Law; and

WHEREAS, the Prior Law required county assessors and commercial air carriers to use a streamlined administrative procedure for the assessment of aircraft, and permitted the use of an assessment methodology to value certificated aircraft consistent with the Statutes; and

WHEREAS, the Prior Law provided for a centralized system – with a "one statement one audit" procedure which allowed commercial air carriers operating in multiple airport locations in California to file a single consolidated property statement ("Statement") with a designated "lead" county assessor; and

WHEREAS, under the Prior Law the lead county assessor transmitted information in the Statement related to non-aircraft personal property and fixtures to other relevant assessors of the counties where the air carrier operated and required an audit team directed by the lead county assessor to audit the air carriers; and

WHEREAS, after the Prior Law was repealed on December 31, 2016, each county assessor could calculate the total aircraft fleet value and audit each airline that lands in their county using any valid method (cost, income, comparable sales, published market value guides) to determine fair market value, as defined in Revenue and Taxation Code Section 110; and

WHEREAS, county assessors possess authority and duty to assess property within their respective counties; and

WHEREAS, the assessors hereto deem that it will be in the best interest of their respective offices to establish a procedure by which they may jointly cooperate to assess the aircraft of commercial air carriers; and

WHEREAS, the Participating Assessors recognize that from time to time it will be necessary to amend this MOU so as to acknowledge other county assessors interested in participating, or amend procedures;

NOW, THEREFORE, the Participating Assessors agree as follows:

1. Effective Date; Term.

This MOU shall become effective as to any Participating Assessor upon the date that such assessor ratifies this MOU and shall remain in effect as between and among such Participating Assessors and all other Participating Assessors from and after such date so long as two or more Participating Assessors remain to this MOU.

2. Aircraft Valuation Methodology Provisions

a. Certificated Aircraft.

Certificated aircraft is subject to property taxation when in revenue service in California. Generally, certificated aircraft are commercial aircraft operated by air carriers for passenger or freight service. Certificated aircraft are valued under a "fleet" concept. Under the "fleet" concept, aircraft types that have gained situs in California by their entry into revenue service in this state are valued as a fleet with only an allocated portion of the entire fleet's value ultimately taxed to reflect actual presence in California's counties.

b. The Fleet Concept - Example.

An individual air carrier, Blue Sky Airlines, operates the following aircraft types in its overall fleet: Boeing 737-300s and 737-500s; Boeing 747-400s; and Boeing 767-200s and 767-300s. Each of these aircraft types (Boeing 737, 747, 767) is considered to be a fleet type. Thus, Blue Sky Airlines may have a fleet of 100 Boeing 737-500s, but only 30 of those aircraft make any contact in Sacramento County during the year. For purposes of property taxation in Sacramento County, the full cash value of all 100 of Blue Sky Airline's Boeing 737-500 aircraft is determined and then the computed allocation ratio is applied to that value

c. Lead County Assessor Calculates Fleet Value.

On or before March 1, 2017, and on or before each March 1 thereafter, the Participating Assessors operating under the auspices of the Aircraft Advisory Subcommittee of the California Assessor's Association (the "Subcommittee") shall designate a lead county assessor's office from among the Participating Assessors for each commercial air carrier operating certificated aircraft in this state in that assessment year. The lead county assessor calculates the total unallocated fleet value of the air carrier's certificated aircraft for each make, model, and series as the law specifies. The lead county assessor transmits the calculated fleet value to the other

Participating Assessors. Operating through the Subcommittee, the Participating Assessors shall designate the schedule for the valuation transmittal process. To assess the aircraft, each assessor determines its allocated portion of the calculated fleet value based on the flight data for its particular county. The allocation process limits each assessor's assessment to reflect the aircraft's physical presence in that county. Once designated a lead county assessor, each such Participating Assessor shall commit to completion of that year's assessment of the commercial air carrier operating certificated aircraft to which that Participating Assessor has been assigned.

d. Fleet Valuation Methodology.

The preallocated fair market value will be the lesser of:

- (1) The acquisition cost of the aircraft, reported in accordance with generally accepted accounting principles, adjusted from the date of acquisition to the lien date of value. The trend factor adjustment to be used will be as annually published by the State Board of Equalization in Assessor's Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors*. A 20 year commercial life, with a maximum price index is to be used for mainline jets, and freighters. A 15 year commercial life, with a maximum price index factor is to be used for regional aircraft, or
 - (2) The average of the current market values listed in the Airliner Price Guide and the Avitas Jet Aircraft Values, both commercially published value guides, less 10%.
- e. Notwithstanding anything to the contrary in this MOU, the Participating Assessor of each county in which the personal property of a commercial air carrier has situs for an assessment year is solely responsible for assessing that property, applying the allocation formula, and enrolling the value of the property in that county, but, in determining the unallocated fleet value for each make, model, and series of certificated aircraft of a commercial air carrier, the Participating Assessor may consult with the lead county assessor's office designated for that commercial air carrier.

3. Administrative procedures

- a. The lead county assessor's office described above shall do all of the following:
- (1) Calculate, pursuant to California Revenue and Taxation Code Section 401, an unallocated value of the certificated aircraft of each commercial air carrier to which he or she is designated.
 - (2) Electronically transmit to the assessor of each county in which the property has situs for the assessment year the values determined by the lead county assessor's office.

- (3) Receive copies of the property statements from the parties hereto of each commercial air carrier to which he or she is designated.
 - (4) Lead the audit team when conducting an audit of a commercial air carrier to which he or she is designated.
 - (5) Notify, in writing, each commercial air carrier for which he or she has been designated of this designation on or before the first March 15 that follows that designation.
- b. Every third year, Participating Assessors operating through the Subcommittee shall redesignate a lead county assessor's office for each commercial air carrier, unless a majority of the Participating Assessors agree to waive this redesignation.

4. Audits

An audit of a commercial air carrier shall be conducted once every four years on a centralized basis by an audit team of auditor-appraisers from at least one, but not more than three, Participating Assessors, as determined by a majority of the parties to this agreement. An audit, so conducted, shall encompass all of the California Personal Property and fixtures of the air carrier and will be made on behalf of each Participating Assessor for which an audit would otherwise be required under Section 469.

5. Performance

All services performed under this MOU shall be performed either by the assessor of the party to which the request is directed or a deputy or deputies appointed by said assessor.

6. Availability of Deputy to Testify

The Participating Assessors agree that any assessor or deputy performing service pursuant to this MOU may be made available by the county employing him to the requesting county assessor for which such services were rendered for the purpose of giving testimony in any proceeding in which an assessment based in whole or in part upon the results of such services is an issue. The Participating Assessors only have a duty under this paragraph to the extent that the participating assessor is able by reason of the contract of employment between such county and such assessor or deputy to direct an individual's attendance.

7. Authorization – Information Held Secret

An assessor requesting any services under the terms of this MOU shall furnish to the party performing such services all necessary authorizations to examine any taxpayer of the property, records, books or other documents of such taxpayer relative to the performance of such services. It is specifically understood and agreed by the Participating Assessors, and each of them, that any information gained, collected or otherwise acquired as a result of any investigation, review, audit or appraisal made under the provisions of this MOU shall be subject to the restrictions contained in California Revenue and Taxation Code sections 408 and 451.

8. Other Interested Assessors

Any other interested county assessor in the State of California may accept the terms of this MOU upon the amendment of this MOU to add the assessor to the list of Participating Assessors. The addition of any assessor to this MOU in the manner described above need not be ratified or approved by the existing Participating Assessors, nor any of them, nor shall any such addition cause this MOU to terminate or otherwise become inoperative. Any new county assessor becoming interested in this MOU after its ratification by the below signed county assessors shall notify all existing county assessors to this MOU by certified mail of the approval and ratification of this MOU and shall include with such notice a copy of this MOU signed by the interested county assessor. A Participating Assessor may withdraw from future participation in this MOU by notifying all other Participating Assessors to this MOU by certified mail of their withdrawal from participation for subsequent assessment years by (month and day) of the current assessment year.

IN WITNESS WHEREOF, the Participating Assessors have accepted this MOU on the day and year hereinafter indicated.

FORM APPROVED COUNTY COUNSEL

BY Kristine Bell-Valdez 2/22/19
KRISTINE BELL-VALDEZ DATE

County Assessors that have Agreed to the Aircraft Assessment and Memorandum of Understanding creating a Procedure for the Assessment of Commercial Air Carriers

1. Alameda
2. Fresno
3. Humboldt
4. Inyo
5. Kern
6. Los Angeles
7. Merced
8. Mono
9. Monterey
10. Riverside
11. Sacramento
12. San Bernardino
13. San Diego
14. San Luis Obispo
15. Santa Barbara
16. Santa Clara
17. Shasta
18. Sonoma
19. Ventura