

Personal Property Meeting
10/20/2009
9:00 am to 11:00am
1313 Sherman Street, Room 318

Those in attendance:

Larry Huffman	Jefferson County
Ari Stiller	Colorado Ski Country USA
Denise Steiskal	Summit County
Beverly Breakstone	Summit County
Steve Cuthburtson	Summit County
Doug Lager	Qwest Corporation
Hank Newton	Boulder County
Raelene Churyk	Weld County
Cristine Caplinger	Weld County
Samson Ang	Direct TV
Lauren Thomas	Duff & Phelps
Nicholas Luohker	Duff & Phelps
Bruce Cartright	Duff & Phelps
Greg Porter	Vail Resorts
Brendan Mcguire	Vail Resorts
Dave Luse	Adams County
Cindy Wittmus	Adams County
Diane Hintz	Larimer County
Katrina Lloyd	Douglas County
April Mycock	Douglas County
Camellia Fletcher	Douglas County
Steve Snyder	Arapahoe County
Joel Shurtleff	Arapahoe County
Judy Stevens	Arapahoe County
Jodi Gragg	Arapahoe County
Cynthia Tiger	Arapahoe County
Barbara Santisteven	Dish Network
Steve Flowers	Dish Network
Kendra Rejda	Eagle County
Kathy Ball	Questar Exploration and Production
Travis Holland	Anadarko Petroleum / Colorado Petroleum Assoc.
Alan Poe	Holland & Hart
Scott Pollock	BP Petroleum
Donna Neading	Broomfield City & County
Charles Nelson	Legacy Renewable Energy
Nel Nelson	Legacy Renewable Energy
Don Korte	Denver City & County
JoAnn Groff	DPT
Ken Beazer	DPT

Those in attendance: (continued)

Curt Settle	DPT
Sue Dickinson	DPT
Cherice Kjosness	DPT

Joining in by phone:

Suzanne Brinks	Moffat County
Carmen Warfield	San Miguel County
Dee Hansen	La Plata County
Renea Neilson	Rio Blanco County
Ardis Conner	Oxy, Inc.
Diane Wissell	ACS, Inc.
Kristin Champagne	Exxon Mobile
Melody Sparkman	Mesa County
Brent Goff	Mesa County

Ken Beazer of the Division of Property Taxation (DPT) called the meeting to order and provided a brief overview of the meeting discussion topics and other information on the subsequent dates for the review and approval of any changes to Assessors Reference Library, Volume 5 (ARL 5), Personal Property Manual.

For the meeting, the two primary discussion topics were the RCN (Replacement/Reproduction Cost New) factor source and the best way to derive the rate used in the General Percent Good Table calculation. Ad valorem personal property values are established by taking the original installed costs, trending them to the appropriate appraisal date by using a cost index based RCN factor, and then depreciating that figure based on the actual or effective age (using the General Percent Good Table), and finally adjusting the resulting value to the June 30 (appraisal date) level of value.

The DPT has traditionally used the Marshall Valuation Service (MVS) cost indexes to estimate the RCN factors for Colorado industries. From the 48 industrial averages captured in MVS data, the DPT has used information factors for 12 of the most representative industries operating in Colorado. CPI-U (Consumer Price Index - Urban) is an alternate source that is being considered as a source of RCN factors.

The relative strengths and weaknesses of each source include:

CPI-U is developed to capture a more localized factor, the data is simplified, easy to access, easy to understand, and is transparent. However, the data captured on specific industries may differ from year to year, consumables are included, and the trends do not appear to be as consistent as MVS.

MVS is a consistent source which surveys the same companies year after year. They are a well established cost data authority, and survey specific Colorado representative industries. However, they provide national (not localized) data, access to their data requires a subscription, and their source data is not as transparent as CPI-U.

The table in the exhibit shows the differences between using the CPI-U for Denver-Boulder-Greeley versus using MVS. The greatest difference is 21% in year 2002, but the differences tend to lessen as age decreases. Newer equipment would tend to have comparably lower values, but older equipment would likely increase except for items that are fully depreciated.

Ken noted that the DPT asked two metro counties to run an impact test. They applied the CPI-U for the RCN factor source and a seven percent rate for the percent good tables. They reported an average loss in value of 6 percent for the combined changes, with approximately four percent attributable to the RCN factor change and two percent attributable to the Percent Good Table change.

Ken then asked for questions and comments:

Camellia Fletcher, Douglas County, asked Ken to clarify the tests with metro counties? Ken said the counties used last year's 2008 property listings, plugged in the RCN factors from the CPI-U and a new rate and associated percent good tables. The two counties showed a 5.5 percent reduction and 6.5 percent reduction respectively that correlated to an estimated 6 percent decrease in personal property values.

Travis Holland asked if those changes would apply to all classes of property? Ken affirmed that, if adopted, they would. He further explained that currently the DPT had 11 industry categories. With the new system, there would be only be one industry category used.

Scott Pollack, BP Petroleum, asked if the indices were compared over time, would they still see the same differences. Ken answered that appears to be the case. Scott then asked if the counties have an option to use the tables or not? Ken noted that from the date of State Board of Equalization (SBOE) approval, the counties would be required to utilize the approved and published tables for that tax year. Scott then said that the oil and gas industry took a hit in the last few years, and he can't see the equipment values going up. Ken stated that with the change in RCN factor source, personal property in the early years would see the most benefit.

Allen Poe, Holland and Hart, asked if the computer / high-tech category would not be affected? Ken said that was correct.

Camellia Fletcher, Douglas County asked, "Why are the changes so high? What kind of data are they looking at?" Ken noted that he could tell her the sources and be sure the math is correct, but he can't explain the result. He said that he had no luck getting direct information from MVS. He had talked to an actual person only once and that person had transferred him to a non-working phone number. He stated that the CPI-U includes consumables, but is at right trade level and a localized factor.

Bruce Cartwright, Duff and Phelps, asked if it is the DPT's proposal to go to CPI-U? Ken said the DPT was not making a proposal either way – just taking input from the interested parties as to whether they thought it would be a reasonable change. Bruce agreed that MVS had no transparency of data. He found CPI-U to be well documented, and, in his opinion, it is better. He is aware that it will affect different assets differently, but transparency is very important in what can be supported.

Ken added that going to one industry table versus 11 offers a simplified RCN option.

Suzanne Brinks, Moffatt County, asked for confirmation that this new RCN will apply to all locally assessed industries personal property except for high-tech? Ken confirmed that.

Carmen Warfield, San Miguel County, stated that there might be difficulty in making adjustments if the equipment that was depreciated out would see no affect from the change. Ken asked if there were any thoughts from vendors. Diane Wissell, ACS, said she had no comment at this point. Ken said he was not aware of potential problems with making the computer systems perform the correct calculations.

Renee Neilson, Rio Blanco County, asked if the change was based on the average of all industries. Ken confirmed that it was. Renee also noted that there was an override for Eagle computers that will freeze fully depreciated property. Ken said that the county systems should have similar capabilities.

The next topic of discussion was the General Percent Good Tables. Ken said there had been some discussion on how other states (including: California, Texas, and Florida) created their percent good tables and associated rates. The DPT created a rate build-up using a band of investment method. Sue Dickinson had compared a variety of industries from the Valueline (a subscription based source). She reviewed the total rate of return from the previous full year from 13 representative industries and calculated a median rate from them. The Percent Good Table developing the rate using this method applied a rate of return of 11.4 percent and is shown on the top of the page in the handout. The build-up rate was estimated to be 9.7 percent and is shown in the bottom table. The build-up calculations are shown on the last page of the handout.

Steve Snyder, Arapahoe County, asked where the 60/40 split for the equity to debt came from, and whether or not that rate would be recalculated each year. Sue said the 60/40 came from other states, sources, and seemed in-line with more in-depth Valueline research. She chose 13 representative companies and looked at their equity to debt ratios over the last 10 years. She found that overall the rate fluctuations were minor, except where there was a significant drop in equity in last few years.

Bruce Cartwright, Duff and Phelps, said he thought the 60/40 split was reasonable, but a typical build-up is the risk rate plus the equity risk premium. Currently the 20-year government bond is 4.4% – add 6.5% for equity risk for a total of 10.5%. Also, Valueline uses both tangible and intangible assets which pulls up the rate. He feels the equity portion of the DPT calculation is too high. He also said that with the Iowa R-3 curve they used real rates of return not nominal rates of return. If we are trying to value the assets, we should not look at total rate of return, but just that on tangible property. Ken said that looking at equity source, where you have intangibles there is also real property which tends to generate a lower rate. Bruce reiterated that a true build up method should be used using capM and beta of 1.

Lauren Thomas, Duff and Phelps, asked, “What if there are losses? Would that result in a negative rate?” Ken responded that the rate would be influenced, but that the expected overall rate should remain positive.

Scott Pollock, BP Petroleum, asked if a study had been done two years ago would the 60/40 split be different? Sue Dickinson said that looking back over ten years it has been as high as 70/30, but over a 10-year average, it was pretty stable.

Ken will send out invitation to next meeting for further comments after the DPT comes up with a recommendation.

Allen Poe, Holland and Hart, asked if there was any consideration for a reduction in the 15% depreciation residual floor? Ken said they have looked at it for several years, but there had been no new studies or data to indicate that it was not appropriate.

JoAnn Groff, Property Tax Administrator (PTA), said it was fair to say that Ken did query other states. Ken said that Marshall Valuation Services used a 20% floor. The multi state personal property association reported depreciation floors from 1% to 30%. Many have set residuals for different industries and types of property. Politics does take a part in specific residuals that are set for specific types of personal property in each state. In Texas, each district makes a determination.

Alan Poe, Holland and Hart, added that using the CPI-U RCN on a 20-year old property results in effectively a 30% floor. He believes that to be unrealistic for a number of industries.

Scott Pollack, BP Petroleum, said he works in many states, and he believes that Colorado is the only state that has an RCN upward trend. This makes the effect of the floors different. Ken disagreed. He believes most Midwestern states do some sort of cost indexing.

Suzanne Brinks, Moffat County, asked when and/or if there would be any recommended economic life changes on properties? Ken said the DPT was not contemplating any at this moment.

Generally, such recommended economic life change considerations take place on a year-to-year basis. Either industry representatives or assessors and staff bring in information and studies related specific economic lives of personal property.

Suzanne said that she thought that there had been sufficient data presented to show problems with the economic lives of pipelines for there to be consideration of a change. Curt Settle, DPT, note that he had received some data regarding that issue – a stack of right-of-way easement requests and an allocated pipeline value information from one sale, but he didn't consider it sufficient to recommend a change. He suggested Suzanne and Renea have further discussions with he and Ken on that subject at a later time.

Ken explained the annual approval process for changes to be made to the personal property procedures and tables. These changes are usually submitted to the Statutory Advisory Committee (SAC) on the 3rd Thursday in December. The DPT will accept data at anytime, but it is generally better to get it by no later than Oct 1st (prior to the January 1 Assessment Date that the information provider would like to see the change implemented) in order for the staff to have sufficient time to analyze it, run data source checks, and decide on specific recommendations.

JoAnn Groff, PTA, reminded everyone that in ARL Volume 5, pg 4.1, it states that counties can provide information/studies to the DPT and/or directly to SAC. That includes if the tables appear incorrect for the whole state or just for a specific county(ies) related issue.

Bruce Cartwright, Duff and Phelps, said he will attempt to get more data to show the 15% residual is not appropriate – especially in light of the trended RCN. He feels it is out of line with market. Also, he has a problem with the income adjustment factor calculated as present value of remaining life over present value of economic life. He believes there should be an additional factor as suggested in Iowa study. The DPT uses the same income adjustment factor as California. For a property with a 10-year life, there is a 1% decline in earnings per year not to exceed 10%. For the 20-year property, this adjustment is only .5% per year, not to exceed 10%. He feels the DPT needs to look at maintenance capital.

JoAnn Groff, PTA, invited everyone at this meeting to attend the Business Personal Property task force meetings on October 28th and 29th. She and Ken will be making a presentation on October 28th. JoAnn added that they may want to talk to chairman if they would like to propose changes, as there appears to be some resistance to the PTA making any changes through our administrative process.