

CALIFORNIA ASSESSORS' ASSOCIATION

August 23 2004

CAA POSITION PAPER

RESPONSE TO THE CALIFORNIA PERFORMANCE REVIEW REPORT **RECOMMENDATION GG19** CENTRALIZE FOR EFFICIENCY THE ASSESSMENT OF COMMERCIAL AIRCRAFT

Summary

Recommendation GG19 proposes that airline personal property be centrally assessed by the State Board of Equalization (SBE) rather than local county assessors. Proponents claim that this would reduce the administrative burden on commercial air carriers and result in a more efficient system. However, since GG19 was prepared without input from local county assessors or the California Assessors' Association (CAA), many of the assumptions provided as a premise for the recommendation are outdated or erroneous. We strenuously oppose this recommendation because it is less efficient for the airlines, does not significantly reduce the workload of local assessors and would cause the SBE to expend substantial costs to build and maintain an appraisal and audit section to assess the airlines' personal property or aircraft. As such, the current local assessment framework is far superior than the recommended remedy.

Background

The CAA wholeheartedly agrees with the idea of making government more efficient. Because of this, for the current 2004 assessment year, the CAA instituted the Centralized Fleet Calculation Program to promote efficiency, accuracy and uniformity for the county valuation of commercial aircraft. This program is not mentioned in the GG19 recommendation. It consists of a CAA designated lead county calculating the fleet values of an air carrier. These calculated fleet values are then distributed to each county in need of this information. The result is that the same fleet values are being used on a statewide basis, eliminating duplicative county mathematical calculations and potential valuation variations between counties for the same airlines, many of which resulted from inconsistent reporting by the airlines.

Administrative burden on commercial carriers

The total number of filings by airlines will increase under GG19, which would require the SBE to assess only airline personal property, consisting primarily of aircraft. However, the assessment responsibilities for the airlines' fixtures, land, possessory interests and structures would remain with local assessors. Since the airlines' fixtures are reported to assessors on the very same statements used

to report the personal property, there would not be any reduction in their number of filings. On the contrary, the airlines would then also have to file statements with the SBE to report on their commercial aircraft and other personal property.

With respect to assessment appeals, the majority of appeals filed by airlines are not for aircraft but for other personal property, fixtures and possessory interests. There are 15 major commercial airports located in 13 different counties in California. Under GG19, airlines will have to file even more appeals on an annual basis when seeking reductions. They will be required to file 15 separate appeals with the state, one for each airport location, and potentially over a hundred appeals for other locations with personal property, such as ticketing offices, and maintenance and cargo facilities. They may also have to file over a hundred-plus appeals with various counties for fixtures and possessory interest assessments.

California's assessment is not an exception

According to a 2002 national survey conducted by the Idaho Tax Commission, there are eight states, not four, that locally assess commercial air carriers (see attachment # 1). Four of the eight states that locally assess commercial air carriers have multiple major airports: California, Texas, Indiana, and Virginia. In Texas, the airlines may report their aircraft in either the county where they are domiciled or the county where they have the most activity, but they still must report their fixed assets to the county where those assets are situated.

Centralization under the SBE vs. centralization under the counties

Counties already have personnel, systems, and expertise in place to handle the relatively complex valuation of commercial aircraft. Since the SBE is not experienced with aircraft valuations, it would have to establish policies and procedures and hire and train new personnel. These ramp-up costs are significant and unnecessary in the absence of obvious benefits for doing so.

Assessors are required under the law to audit those companies with self-reported assets of \$400,000 or greater. Some airlines have not been reporting properly or consistently with county assessors on assessment categories such as machinery and equipment, fixtures, rotatable parts, expendable parts, and aircraft. In the last four-year audit cycle, a survey of nine counties revealed that there was over \$642 million in deficiency assessments (under reporting) discovered resulting in over \$6 million in property tax revenue. In a more recent audit of a particular airline, a county auditor discovered a gross deficiency totaling over \$100 million. Although the SBE is not required to perform audits under GG19, they should be required to do so due to the potential for lost revenue. However, this means that SBE auditors will be reviewing an aircraft operator's records for personal property deficiencies while the counties will also be auditing for the same years for their other assets. This will be less efficient for the airlines, the SBE, and the counties.

The CAA is instituting a Centralized Audit Program to minimize the number of airline audits. Under this program, each airline will be audited by a CAA designated team of auditors once every four years to eliminate airlines having to

be visited by multiple counties each year to perform statutorily mandatory audits. With this program, counties will pool resources and expertise while each airline will be audited only once every four years for all of its California assessments.

GG19 proposes to bifurcate airline assessments. That is, the SBE would assess the air carrier's commercial aircraft and other personal property while the local assessor would continue to assess their fixtures, land, improvements and possessory interests. However, the distinction between personal property and fixtures is often difficult to discern and differing opinions are not unusual. If one entity is responsible for both assessments, this classification does not pose a problem. When this classification must be coordinated between two separate entities, this categorization becomes extremely difficult and raises the possibility of duplicate or escape assessments.

Centralizing the assessment function with the SBE will not eliminate the administrative responsibilities of counties

Assessors will still be required to assess airlines' real property, fixtures and possessory interest, as well as handle the related public service and assessment appeals. Property statements will still be necessary for fixture items, and the number of subsequent legally mandated audits will not be reduced.

Competitive business environment

Although the industry was in a decline after 9/11, currently airline travel is back to pre-9/11 levels. In a news release dated June 24, 2004, Los Angeles World Airports (LAWA) states that "For the first five months of 2004, LAX passenger traffic totaled 23,804,448 – up 11 percent compared with the same period a year ago" (see attachment # 2). The news release also states that "LAX expects to serve about 60 million passengers in 2004, compared with 54.8 million in 2003". Also, LAWA's interim executive director, Kim Day, said "We are now in the midst of the busiest travel period since the record-breaking summer of 2001. The impressive gains we are seeing in both domestic and international travel this summer should bode well for the Southern California economy."

Some major airlines are still suffering due to high cost structures, labor costs and fuel costs, and contain structural inefficiencies. Since 9/11 (assessment years 2002, 2003, and 2004), assessors have granted (annually) approximately 10% economic obsolescence on commercial aircraft. Any argument that the airline industry's administrative burden is sufficiently great to warrant a revamping of the property tax system for only their industry would certainly require more documentation and analysis than has been presented in the GG19 recommendation.

Recommendation

Assessors already have assessment procedures, personnel and expertise in place to perform airline assessment and audit functions. Centralized fleet calculation has proven to be very successful and will continue into the future. A centralized audit program is being implemented and will result in further savings for all concerned. What is needed is an extension of Revenue and Taxation Code

Section 401.15 along with additional language to formalize the above two mentioned centralized fleet calculation and audit programs.

It is the recommendation of the CAA that the commission remove recommendation GG19 from its report, recognizing the CAA's Central Fleet Calculation and Audit Programs as the most effective methods of commercial aircraft assessment; methods that are efficient and ensure that commercial airlines pay their fair share of property tax.

CAA Position Paper – Response to GG19

Attachment #1

COMMERCIAL AIRLINES ASSESSMENT – BY STATE

	State	Locally Assessed	Centrally Assessed	Exempt
1	Alabama		X	
2	Alaska	X		
3	Arizona		X	
4	Arkansas		X	
5	California	X		
6	Colorado		X	
7	Connecticut			X
8	Delaware			X
9	Florida			X
10	Georgia		X	
11	Hawaii			X
12	Idaho	X		
13	Illinois			X
14	Indiana	X		
15	Iowa			X
16	Kansas		X	
17	Kentucky		X	
18	Louisiana		X	
19	Maine *			
20	Maryland			X
21	Massachusetts	X		
22	Michigan			X
23	Minnesota		X	
24	Mississippi		X	
25	Missouri		X	
26	Montana		X	
27	Nebraska		X	
28	Nevada		X	
29	New Hampshire			X
30	New Jersey			X
31	New Mexico		X	
32	New York			X
33	North Carolina		X	
34	North Dakota			X
35	Ohio			X
36	Oklahoma		X	
37	Oregon		X	
38	Pennsylvania			X
39	Rhode Island	X		
40	South Carolina		X	
41	South Dakota		X	
42	Tennessee		X	
43	Texas	X		
44	Utah		X	
45	Vermont			X
46	Virginia	X		
47	Washington		X	
48	West Virginia		X	
49	Wisconsin		X	
50	Wyoming		X	

* Airplanes receive an excise tax in lieu of other tax, if the planes are in Maine for 30 or more consecutive days.

Totals 8 26 15

News

**NEWS
RELEASE**

**LOS ANGELES AND ONTARIO
AIRPORTS CONTINUE
REBOUND IN PASSENGER AND
CARGO VOLUMES**

6/24/04

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**LAX Passenger Volume Soars
15.8 Percent, ONT Up Six
Percent Over May Last**

(Los Angeles, California – June 24, 2004) Passenger traffic at Los Angeles International Airport (LAX) in May soared 15.8 percent to 5,112,445 passengers compared with the same month in 2003, Los Angeles World Airports (LAWA) officials reported today. The increase was driven by a 27 percent jump in international traffic, while domestic traffic was up 12.2 percent. For the first five months of 2004, LAX passenger traffic totaled 23,804,448 -- up 11 percent compared with the same period a year ago.

At Ontario International Airport (ONT), passenger traffic in May reached 597,053 -- up six percent compared with May 2003. Year to date (January through May), ONT's passenger traffic totaled 2,771,213 -- up 6.4 percent compared with the same period in 2003.

"Passenger traffic at LAWA airports continued its strong rebound in May," said Kim Day, LAWA's interim executive director. "We are now in the midst of the busiest travel period since the record-breaking summer of 2001. The impressive gains we are seeing in both domestic and international travel this summer should bode well for the Southern California economy."

LAX expects to serve about 60 million passengers in 2004, compared with 54.8 million in 2003. The peak travel year was 2000, when 67 million passengers used LAX. ONT is expected to serve about seven million passengers this year, which would surpass the previous record of 6.7 million set in 2000.

Since the current LAX facilities were designed to accommodate 40 million annual passengers, the heavy passenger volumes this summer are resulting in crowded passenger terminals at peak times. Roadway congestion in and around LAX is also a factor that travelers need to take into account when planning their trips to the airport. ONT's facilities were designed to accommodate 10 million annual passengers.

Air cargo (freight and mail) volume at LAX in May was 175,996 tons -- up 5.7 percent over May last year. For the first five months of this year, air cargo at LAX rose to 834,328 tons - three percent higher than the same period last year.

Air cargo (freight and mail) volume at ONT in May was 45,963 tons -- 0.5 percent less than May last year. However, year-to-date air cargo volume at ONT is 253,026 tons -- 12.5 percent higher than the same period last year.