



**David L. Gangloff Jr., Esq. President**  
 Property Tax Assistance Co., Inc.  
 16600 Woodruff Ave.  
 Bellflower, CA 90706

Presort Std  
 U.S. Postage  
 PAID  
 WMS



## BUSINESS IS ABOUT WHAT YOU KEEP

David L. Gangloff Jr. Esq

As a general rule we like to keep our newsletter as "news" oriented as possible. Unfortunately, this last quarter has been a little slow in the "news" as it relates to property taxes in California. Therefore, I am going to relate something that happened early in my career that made a large impact on the way I think about things.

About 15 years ago I was working on a case for a food processing company, and my instincts told me there was a problem with the assessments. Even though I knew the assessments were too high I could not find anything that would prove it. I asked the controller who knows the value of the equipment the best and he said that the president of the company was the most knowledgeable. I asked if I could speak with him. The controller told me that would not be possible because the president was much too busy but that he could arrange for me to speak to several other people in the organization.

I spoke to all of the people that the controller recommended but had no success in getting the information I was after. After I spoke to the first person I asked the controller if he was sure the president wouldn't have just 30 minutes to chat with me. He said no. After the second person I asked for 15 minutes with the president. The controller said no. After the third person I asked for just five minutes. Finally the controller said he would ask the president for five minutes of his time as long as I promised not to take more than that. I agreed.

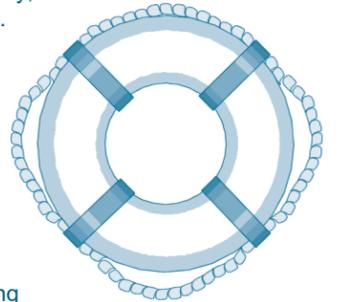
After just five minutes with the president he was able to point me in the direction of finding some solid information to support a value reduction. When I thanked him and I was ready to leave he insisted that I tell him more about what I was doing. The more we spoke the more interested he became. I was very nervous because I had promised the controller that I would not take more than five minutes of his time but since he was so knowledgeable and was interested I thought it would be alright.

He had been in the food processing industry for over 40 years and knew everything about the equipment. I told him that I thought he would make an excellent witness at the assessment appeals board hearing. I explained to him that the hearing would be about 15 miles away and take a day. I told him that I realized that his company did over \$300,000,000 a year in sales and that I was only trying to save the company between \$150,000 and \$200,000 and therefore I understood if he thought that it was just not worth the time.

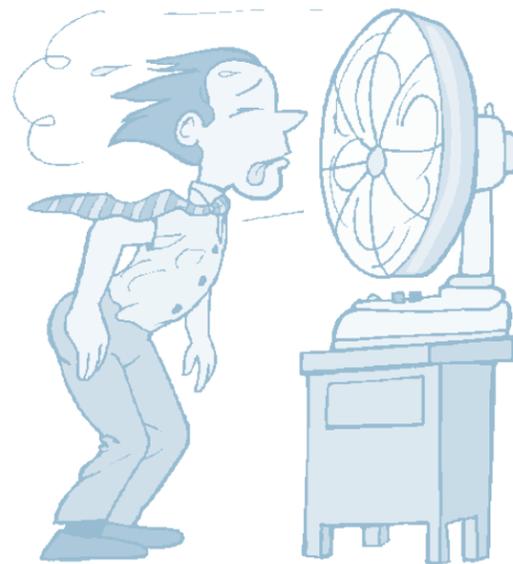
His response - he asked me if I had ANY idea how many jars of mayonnaise he had to sell to make \$150,000 to \$200,000 in profit. He told me that, "Business is about what you keep, not what you sell." I will never forget what he said next, "Son, you tell me where you want me to be and when you want me to be there and I will change my schedule to make it happen. I can't think of a faster way to add money to the bottom line."

I have never forgotten that gentleman (although I can't remember his name.) He taught me a very valuable lesson that I always remember in running our company. As an observation, over the years I have noticed that many people don't want to review their property tax situation because it is "just not worth their time." I can't help but smile and think, "business is about what you keep."

Oh, and yes, when we went to hearing the assessment appeals board ruled in our favor 100%.



### Property Tax Update



*Ah, summer, what power  
 you have to make us suffer and like*

Wallace Stevens

[www.property-taxes.com](http://www.property-taxes.com)

**Bellflower, CA (Corporate Headquarters)**  
 Property Tax Assistance Co., Inc.  
 16600 Woodruff Ave.  
 Bellflower, CA 90706  
 Phone 562-920-1864 Fax 562-920-5775  
 PTA@property-taxes.com

**Bay Area Office**  
 Property Tax Assistance Co., Inc.  
 3466 Mt. Diablo Blvd, Suite C-201  
 Lafayette, CA 94549-3588  
 Phone 925-284-8035 Fax 925-284-8038

**Phoenix, Arizona**  
 5829 North 7th St., Suite 1-A  
 Phoenix, AZ 85104  
 Phone 602-368-9682 Fax 602-368-9083

**For inquiry's Please call:**  
 Editor: Lisa Henry  
 LHenry@property-taxes.com  
 562-920-1864 ext 209

## The Textile Industry is Suffering. Gilbert Arciba, Sr. Consultant

The textile industry invested heavily in modernization. Through the development of state of the art equipment, massive modernization, and new facilities; textile manufacturers' productivity set new records in the 1990's. In addition, applying the latest technology in all aspects of the manufacturing process maximized output.

This growth, which was expected to continue on an upward trend, was suddenly halted in 1997. The Asian Crisis greatly impacted the U.S textile industry. Coupled with the capabilities of foreign markets to produce products at much lower cost caused a collapse in the domestic growth of the textile industry.

The cost advantage of these foreign markets created a serious problem that has led to a drastic decline in domestic markets from 1997 to present. This decline has caused many companies to file for bankruptcy leaving thousands of people unemployed.

Property tax assessments are based on the cost approach to value. The cost approach is based on the principle of substitution; a prudent buyer will not pay more for an asset than the cost of acquiring a substitute property of equivalent utility. The cost approach, however, without proper industry research and analysis may not accurately reflect the obsolescence inherent in this industry.

The textile industry is currently suffering from a high degree of economic obsolescence. Economic Obsolescence is the loss in value or usefulness of a property caused by factors external to the property, such as increased cost of raw materials, labor, or utilities (without an offsetting increase in product price); reduced demand for the product; increased competition; environment or other regulations; inflation or high interest rates; or similar factors.

The few textile manufacturers presently operating are suffering from this form of obsolescence and all are deserving of some tax relief. The first step would be to timely file an assessment appeal. Through the appeal process, taxpayer preserves their right to request adjustments on their taxes paid.

The approach to utilize to realize these adjustments would vary. The review can focus on the decline and the impact on sales and production. In addition, the fact the market is oversaturated with used equipment would further support the obsolescence in this industry. The excess equipment available would have a direct impact on the demand and cost of new equipment. Thus, affecting the fair market value of used equipment.

The above stated approaches are just two of many ways adjustments can be obtained. No set approach can be guaranteed without proper review of the taxpayer's records. However, with proper documentation and analysis these adjustments would be easily accomplished.

It is every taxpayer's desire to receive a fair assessment. Operating in an industry which continues to suffer from a high degree of obsolescence, it would be in your best interest to pursue some tax relief.



### Congratulations Kris!

Property Tax Assistance Company, Inc. would like to congratulate Kristian Chacko on passing the enormously difficult California State Bar Exam. Kris will be sworn in later this summer.

Kristian has been representing California taxpayers since 1994 with regard to real and personal property tax issues. He has been successful either negotiating with or presenting against the Assessor in various taxing jurisdictions through out California. His expertise in property tax includes but is not limited to issues found in the following industries: Aerospace, Video and Audio Post Production, CD and DVD Manufacturing, Semiconductor, Printed Circuit Board, Printing, Textiles, Food Processor, Injection Molding, Juice Bottling, Building Materials and Radiology. Kristian has successfully completed all ASA Machinery and Equipment Appraisal courses and is a member of the Institute of Property Taxation. He received his BS in Business Administration from California State University Fullerton and his JD from Pacific Coast University School of Law in Long Beach.

## Quotes

### On action

I like things to happen; and if they don't happen, I like to make them happen.  
—Winston Churchill

Never confuse movement with action.  
—Ernest Hemingway

### On laughing at yourself

No one becomes a laughingstock who laughs at himself.  
—Seneca

### On rumors

A rumor will travel fastest to the place where it will cause the greatest harm.  
—Gustavo N. Agrait

### On life

In three words I can sum up everything I've learned about life: It goes on.  
—Robert Frost

### On parenthood

There are times when parenthood seems like nothing but feeding the mouth that bites you.  
—Peter De Vries

### On teaching a man to fish

Give a man a fish and he eats for a day. Teach him how to fish and you get rid of him all weekend.  
—Zenna Schaffer

## Property Tax Update

# Soap Box

Michael Barton, VP Real Estate Tax Services

Having been in the Property Tax field for nearly 25 years, I often reach the conclusion that I have seen and heard it all. However, every year or two, something new comes along and I am left dazed and confused.

Just recently, I participated in a hearing regarding a major income property. I presented my appraisal and then prepared to answer the Assessor's cross-examination questions. To my surprise, the Assessor had only one question and we moved on to the Assessor's presentation.

I know this will shock and amaze you all, but Assessors sometimes try to misstate or distort the numbers to fit a pre-determined conclusion of value. An example might be where they overstate the revenue-generating capacity of a property under appeal as part of their Income Approach. And for their Market Approach, where Comparable Sales must be adjusted for differences in Location, Quality, Sale Date, Amenities, Views and Size, Assessors have been known to be remarkably negative about the comparables and quite positive about the Subject of the appeal. Typically, however, the flaws in judgment are extremely subtle, which is, of course, why you need to hire PTA.

In this instance, I must say the Assessor's errors were not only numerous but remarkably obvious. It took quite some time for me to simply mention the flaws. Fortunately, it became clear to me that the Board was as mystified as I was by the Assessor's "logic", and I decided to offer only minimal discussion of my objections since no such additional argument was necessary.

At the conclusion of my cross-examination, the Assessor was granted an opportunity to dispute my observations. I was prepared to defend my specific comments on adjustments for View, Location and Size and so forth, but there were no questions from the Assessor regarding these issues. Additionally, I expected the Assessor to defend their Income Approach (they had played serious games with the expenses and cap rate), yet there was no mention of their Income projection or of their cap rate procedure.

So, I had criticized nearly every detail of the Assessor's case and the Assessor offered no challenge to my critical remarks whatsoever, except (and here comes the "I thought I'd heard it all" part) one general observation:

He had the nerve to refer to my cross-examination as...get this....

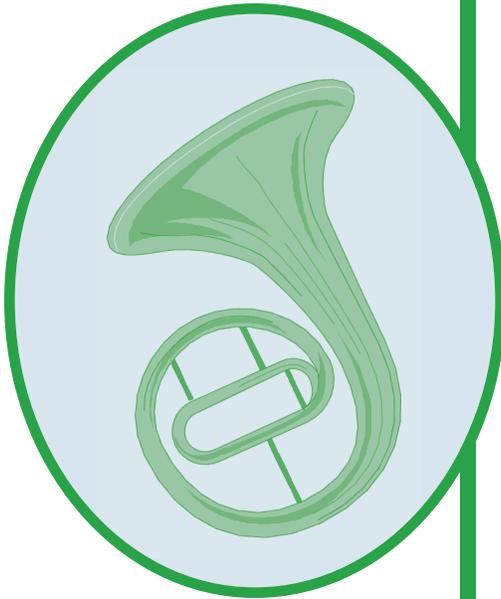
### "EXCESSIVE REBUTTAL".

I guess it didn't occur to the Assessor that, **had they not made 20 or 30 blatant errors in their case, the Applicant's Rebuttal would not have been Excessive.**

Now I think I have seen it all!



## TOOTING OUR HORN!



Although this is an informational newsletter, we would like to take the opportunity to brag about a sampling of our successes, from various industries, in the last quarter. These are the amounts of the refunds that our clients have received from the county, due to our work.

<i>Aerospace</i>	\$8,745.10
<i>Aluminum Extruded Product Mfg.</i>	\$22,294.83
<i>Broadcasting</i>	\$55,515.19
<i>Commercial Printing</i>	\$18,611.32
<i>Container Mfg.</i>	\$18,569.91
<i>Dairy</i>	\$59,339.18
<i>Hospital</i>	\$32,899.79
<i>Marine Cargo Handling</i>	\$130,249.96
<i>Motion Picture &amp; Video Production</i>	\$5,415.05
<i>Steel Wire Drawing</i>	\$22,622.72
<i>Vehicle Part Mfg.</i>	\$146,739.55

## Tax Tidbits

### Blast From the Past

"We have too much loose thinking on tax questions. The public mind is in a condition of murkiness on the problem. Millions of people are under the impression and sincerely believe that a tax stays wherever you put it. They believe that if you tax the rich, the rich pay the tax. They do not see where the tax finally rests. They seem to believe that when railroads are taxed, the owners of the roads pay for the tax out of their own pockets. They do not appreciate the fact that railroad owners only pay the taxes in the first instance and then collect every dollar of them from the passengers and the shippers, They fail to realize that taxes affect the cost of living. They do not seem to know that there is no such thing as a nontaxpayer outside of the prisons or poorhouses. ...Nine-tenths of the extravagance of government is due to the delusion that the people do not have to pay the bill."  
-Dr. Milbank Johnson, Cal-Tax Chairman of the Board, in "Public Expenditures: Civic Consciousness Needed to Cut Costs," *The Tax Digest*, November 30, 1930



# Is your Assessment Correct?

*It must be worth what you spent on it in the last 15 years*

Shari Bowden Tucker, CMI

Every assessor will tell you that whatever money you have spent on your property increases its value. Of course, that's not true.

Everyone can appreciate this scenario:

You buy a car new. After a fifty thousand of miles, you need to invest in some capital repairs. Perhaps the car needs new tires, brakes, or a timing chain. You drive it another thirty thousand miles, but this time you are on the verge of trading it in, or putting in more capital to replace the transmission, and also finally add a stereo. You weigh the cost of a new one, your financial situation, just how much you actually drive it, plus the break for cheaper insurance now that the car is paid for, and you decide to fix the transmission, and buy the stereo and some new seat covers.

A few thousand miles more, and you find out you need to replace the engine. At this point, to just scrap it and start over with a new car might begin to make some financial sense. With major fuel technology getting closer and closer to reality, if you buy a new car, it could be obsolete right away. Plus, in your current neighborhood, nobody steals the model car you are currently driving. It makes sense at this time to hang on to it, and put in a new engine. You can live with the dents, the beaded seat covers, and the trunk that opens only with a flathead screw driver for yet another year.

At this point, you've spent money for the purchase of the car, three major capital repairs, plus regular maintenance, fuel and insurance. Total invested capital on this car is \$55,000. A new one that gets better gas mileage, looks sharp, and so forth, costs \$35,000.

The reality is, your car, as it sits, would sell for \$2,000. The further reality is that when you pay your car license fee in California, you pay it based upon the market value of your car, not based upon how much you've had to spend on it over the years. Thank heaven for small favors, eh?

Tangible real and personal property is typically assessed at what you spend on it, trended for inflation, (known as the reproduction cost) and then marginally depreciated to reflect typical wear and tear. The depreciation tables used by county assessors do not take into account changes in the equipment market, consumer tastes, and productivity. So every year as you report new costs for machinery, fixtures, or building improvements that qualify as new construction, the jurisdiction generally adds them to the roll.

After 15 or 20 years, the sum of the parts begins to radically exceed the actual value of the whole, just like in the car example above. Property is supposed to be assessed based upon its market value. You shouldn't be paying taxes on your invested capital cost. However, you probably are paying on the higher amount.

The fact is, few property owners, and even fewer assessors, take a high-level look at what an actual replacement cost new for the property and equipment would be. In many cases, the replacement cost new is lower than the reported cost for the property.

One reason for that is newer equipment may actually cost less. Advances and competition from China in the machinery market have changed the functionality, life expectancy, and productivity of equipment in general. Modern manufacturing equipment is cheaper, more disposable, and easier to replace. This helps manufacturers keep up with changing consumer tastes. Secondly, newer equipment also takes less space to produce the same amount of product.

The replacement cost new provides strong evidence that excess capital cost is being subjected to assessment. Chances are you already know what replacement cost new would be for all, or even a portion of, the facility. If not, firms like PTA have tools to estimate such costs available to them. Replacement cost new, less depreciation for physical, functional and economic obsolescence to reflect the condition of your facility is a more reasonable method to value older, rambling facilities than the reproduction cost new approach the assessor favors. It's also probably a lot less than the assessed value, and provides a good starting point to open discussions with the assessor.

As with the car example, perhaps the old facility would sell for only a fraction of the invested cost. You may even have that data on hand, but never gave it much thought. What would your plant and equipment sell for? Perhaps you already know, having bought or even sold a similar facility. If available, that is the best indicator of the market value of the property.

Pulling this information together, presenting it to the assessor, and maybe the appeals board could result in a lower taxes. Let us help you lower that assessment!

