Name:____

County:____

TAXABLE POSSESSORY INTEREST SELF-STUDY TRAINING SESSION

REVIEW QUESTIONS

1. Generally, a possessory interest consists of a right to the possession of real property for a period less than perpetuity by one party, the _______________ of the possessory interest, while another party, the _______________________________ owner, retains the right to regain possession of the real property at a future date.

2. A taxable possessory interest is a possessory interest that is separately taxable to the possessor. For introductory purposes, a taxable possessory interest can be defined as the taxable interest held by a private possessor in privately owned real property.

   ☐ True
   ☐ False

3. Which of the following court cases helped define what constitutes a taxable possessory interest? (Mark all that apply.)

   ☐ *State v. Moore*
   ☐ *People v. Shearer*
   ☐ *Mitsui Fudosan, Inc. v. County of Los Angeles*
   ☐ *San Pedro, Los Angeles & Salt Lake Railroad Co. v. City of Los Angeles*
   ☐ All of the above

4. In *Kaiser v. Reid*, the California Supreme Court provided a set of criteria, or standards, for determining when a private possessory right constitutes a taxable possessory interest. One of the three criteria established by the court was that the possessor must receive a private benefit.

   ☐ True
   ☐ False

5. List the four primary criteria, derived directly or indirectly from *Kaiser*, that must be met for a possessor's interest in publicly owned real property to constitute a taxable possessory interest.

   a. ____
   b. ____
   c. ____
   d. ____

6. To constitute more than a mere agency, the possessor must have the right and ability to exercise significant authority and control over the management or operation of the real property, in conjunction with the policies, statutes, ordinances, rules, and regulations of the public owner of the real property.

   - [ ] True
   - [ ] False

7. Property Tax Rule 20, when defining exclusivity, excludes the concurrent use of real property in order for a possessory interest to exist.

   - [ ] True
   - [ ] False

8. The fact that a possession of real property is not for a business or commercial purpose or that the possessor is a non-profit corporation does not preclude the possessor from being found to have received a "private benefit" from that possession.

   - [ ] True
   - [ ] False

9. Taxable possessory interests may exist in which of the following? (Mark all that apply.)

   - [ ] Tax-exempt personal property
   - [ ] Component parts not fabricated into a finished product
   - [ ] Personal property of the California Pollution Control Financing Authority
   - [ ] Interests in land where no improvements exist
   - [ ] None of the above

10. A taxable possessory interest may exist in property ceded by the state to the federal government after 1936, but a taxable possessory interest cannot exist, in the absence of express congressional authorization, in property ceded from the state to the federal government prior to 1936.

   - [ ] True
   - [ ] False

11. Which of the following private interests in publicly owned land is/are not a taxable possessory interest? (Mark all that apply.)

   - [ ] Grazing of livestock on national forest lands
   - [ ] Federal shipyard for the construction of ships
   - [ ] Airport car rental counter space
   - [ ] Student-occupied residences on university-owned real property
   - [ ] Amusement machine concessions
   - [ ] Management and operation of conference facilities
   - [ ] Rental of television sets to patients in a county hospital

12. When valuing a taxable possessory interest, the highest and best use of that possessory interest is always its ________________________, which is not necessarily the same highest and best use as the fee interest.

13. For a taxable possessory interest, which of the following statements are true regarding the purchase price presumption? (Mark all that apply.)

☐ Revenue and Taxation Code section 110(b) applies.
☐ Purchase price does not include the entire interest that is being valued.
☐ Sales price represents only the equity value.
☐ Purchase price must be adjusted for any unpaid rent for the reasonably anticipated term of possession.
☐ All of the above.

14. The value that is sought when assessing a taxable possessory interest is equal to, among other values, the value of the rights possessed as if owned in perpetuity plus the present value of the reversionary interest.

☐ True
☐ False

15. The *De Luz* court held that in valuing a taxable possessory interest by the capitalization of income method, it was improper to deduct the lessor's charges for rent, amortization of investment, or payment of principal or interest on mortgage debt from the estimated gross return in developing the net income to be capitalized.

☐ True
☐ False

16. All else being equal, the longer the term of possession, the higher the value of the possessory interest.

☐ True
☐ False

17. Rule 21 defines the "term of possession for valuation purposes" as the __________________ ____.

18. As stated in Property Tax Rule 21(d)(1), the stated term of possession shall be deemed the ____ unless it is demonstrated by clear an convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the ____________ ____is shorter or longer than the stated term of possession.

19. If there is no stated term of possession, the reasonably anticipated term of possession shall be demonstrated by the intent of the public owner and the private possessor, and by the intent of similarly situated parties using which of the following criteria? (Mark all that apply.)

- ☐ The actions of the parties to the subject taxable possessory interest, including any amounts invested in improvements by the public owner or the private possessor.
- ☐ The rules, policies, and customs of the public owner and other similarly situated public owners.
- ☐ The customs and practices of the private possessor and similarly situated private possessors.
- ☐ The sale price of the subject taxable possessory interest and sales prices of comparable taxable possessory interests.
- ☐ The history of the relationship of the public owner and the private possessor and the histories of the relationships of similarly situated public owners and private possessors.
- ☐ All of the above.

20. What are the approaches to value taxable possessory interests?

____
____
____

21. With the direct methods, the appraiser directly estimates the present value of the rights held by the possessor over the reasonably anticipated term of possession. With the indirect methods, the appraiser estimates the value of the rights in the taxable possessory interest as if it were owned in perpetuity and adds the estimated present value of the nontaxable reversionary rights retained by the public owner, leaving a remainder equal to the value of the taxable possessory interest.

- ☐ True
- ☐ False

22. The comparative sales approach is a direct method of valuing a taxable possessory interest.

- ☐ True
- ☐ False

23. The income to be capitalized when valuing a taxable possessory interest is the____________ _____________ to the public owner attributable to the taxable possessory interest, which is _______________________________________ less_____________________________________.

24. The contract rent should be reduced by any expenditure necessary to maintain the income from the taxable possessory interest during the possessor's reasonably anticipated term of possession.

- ☐ True
- ☐ False

25. Gross outgo, or allowed expenses, does not include amortization, depreciation, depletion charges, debt retirement, security services, interest on funds invested in the taxable possessory interest, property taxes, and advertising or promotional services.

- [ ] True
- [ ] False

26. The appraiser may estimate the market (economic) rent as of the valuation date using any of the following as indicators, or evidence, of the market rent, as appropriate:

a. ____
b. ____
c. ____
____
d. ____

27. A capitalization rate for a taxable possessory interest must be developed from income and sales data from comparable properties.

- [ ] True
- [ ] False

28. In direct capitalization, the value indicator is obtained by dividing ____________________ ______________________________ by ____ ____.

29. In yield capitalization, the value indicator is obtained by discounting the subject property's expected gross incomes for multiple years over an expected holding period (the reasonably anticipated term of possession in taxable possessory interest valuation).

- [ ] True
- [ ] False

30. In order to derive a yield rate from sales data (i.e., "the market-derived" way), the appraiser requires the buyer's ____________annual net incomes (including the expected income that results from the reversionary value) over the buyer's __________________ holding period.

31. In the income approach-indirect method, the appraiser estimates the value of the subject taxable possessory interest as if it were owned in fee simple, and then subtracts the estimated present value of the nontaxable reversionary interest for the rights possessed retained by the public owner.

- [ ] True
- [ ] False

32. When using the cost approach, the estimated value of the improvements must be consistent with the permitted use under the taxable possessory interest.

- ☐ True
- ☐ False

33. In general, the provisions of article XIII A and related statutes and regulations apply to the assessment of taxable possessory interests. Which of the following statements are not true regarding taxable possessory interests? (Mark all that apply.)

- ☐ A taxable possessory interest created after March 1, 1975 receives a base year value equal to its fair market value on the date of its change in ownership.
- ☐ A taxable possessory interest in existence on March 1, 1975 received a base year value equal to its fair market value as of that date, with that value indexed by the inflation factor to the 1978 lien date.
- ☐ The base year value for taxable improvements on tax-exempt land completed after March 1, 1975 is based on the fair market value of the newly constructed improvements on their date of completion.
- ☐ None of the above.

34. Among the factors that may cause a decline in value of a taxable possessory interest is a reduction in the reasonably anticipated____.

35. The transfer of a taxable possessory interest subject to a sublease with a remaining term (including renewal options) that does not exceed half the remaining term of the master taxable possessory interest (including renewal options) constitutes a change in ownership.

- ☐ True
- ☐ False

36. In the case of a taxable possessory interest, a change in ownership is deemed to occur with the creation of a subleasehold interest in a taxable possessory interest that is greater than half the remaining term of the taxable possessory interest itself.

- ☐ True
- ☐ False

37. When a change in ownership of a taxable possessory interest occurs because of a sublease transaction, and the sublease involves a portion rather than all of the taxable possessory interest, only the subleased portion of the taxable possessory interest____________________
____.

38. When a public entity acquires privately owned real property subject to a lease, the leasehold interests become a separately assessable taxable possessory interest on the date
____.

39. In general, a taxable possessory interest is subject to supplemental assessment in the same manner as other real property subject to article XIII A of the California Constitution—that is, a taxable possessory interest is subject to supplemental assessment upon change in ownership or new construction.

☐ True
☐ False

40. Under the provisions of section 155.20, a county board of supervisors may exempt from taxation, by local ordinance or resolution, all real property with a base year value that

____
____
____.

41. Section 480.6 requires every state or local governmental entity that is the fee owner of real property in which a taxable possessory interest has been created to either file the required ____ or ____________________ ________________________________ with respect to a renewal of a taxable possessory interest; or file an annual ____.

42. In general, land owned by a local government and located outside its boundaries is taxable if the land was taxable when acquired, and improvements owned by a local government and located outside its boundaries are taxable if the improvements were taxable when acquired or were constructed to replace improvements that were taxable when acquired.

☐ True
☐ False

43. The "section 11 taxable possessory interest limitation amount" is the difference between the fair market value of the taxable government-owned real property on the lien date and the section 11 value of the taxable government-owned real property on the lien date.

☐ True
☐ False

44. A public retirement system, which has invested assets in real property and improvements thereon for business or residential purposes for the production of income, shall pay annually to the city or county, in whose jurisdiction the real property is located and has been removed from the secured roll, a fee for general governmental services equal to the difference between ____

____
____
____

45. Neither the in-lieu fee nor an assessment under article XIII section 11 applies to investment real property owned by state public employees retirement systems.

- ☐ True
- ☐ False

46. Indirect investment in real property by a state public retirement agency—that is, investment in a legal entity that invests in real property as opposed to direct ownership—constitutes investment in real property for the purposes of section 7510.

- ☐ True
- ☐ False

47. A taxable possessory interest in property owned by a redevelopment agency should be assessed as if ______________________________, that is, the assessed value should include ______________________________
______________________________.

48. The preferred method for determining the assessed value of a cable television taxable possessory interest is the income approach.

- ☐ True
- ☐ False

49. Intangible assets or rights of a cable television system are exempt from property taxation; however, a cable television possessory interest may be assessed by assuming the presence of ______________________________ necessary to put the cable television possessory interest to beneficial or productive use in the operation of a cable television system.

50. Pursuant to section 107.8, a lease-leaseback transaction of publicly owned real property does not create a taxable possessory interest if certain conditions are satisfied. Which of the following are true regarding those conditions? (Mark all that apply.)

- ☐ The lessee cannot receive rent or other amounts from the public owner under the sublease that exceed the value of the rent payable under the lease.
- ☐ The lessee may not exercise authority and exert control over the management or operation of the property except for policies, statutes, ordinances, rules, and regulations of the public owner.
- ☐ The written sublease must provide that the public owner has the right to repurchase all of the lessee's rights in the lease.
- ☐ The lessee is obligated to sublease the property to the public owner of the property for all or substantially all of the lease period.
- ☐ All of the above.