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# SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair  
2025 - 2026 Regular

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<b>Bill No:</b>	SB 1437	<b>Hearing Date:</b>	4/22/26
<b>Author:</b>	Committee on Revenue and Taxation	<b>Tax Levy:</b>	No
<b>Version:</b>	3/11/26	<b>Fiscal:</b>	No
<b>Consultant:</b>	Grinnell		

***PROPERTY TAXATION: INTERCOUNTY PIPELINE: RIGHT-OF-WAY  
ASSESSMENT: FULL CASH VALUE***

*Extends the sunset dates for the specific valuation methodology for intercounty pipeline rights-of-way for five years, through the 2030-31 fiscal year.*

## **Background**

Section One of Article XIII of the California Constitution provides that all property is taxable and shall be assessed at the same percentage of fair market value, unless explicitly exempted by the Constitution or federal law. The Constitution requires that property be assessed in the county, city, or district in which it is situated (Article XIII, Section 14).

While the Legislature first directed county assessors to tax property in 1849, assessors in different counties often applied different tax rates and methods of assessment. To remedy the lack of uniformity, the California Constitution of 1879 created the Board of Equalization (BOE) to equalize rates and assessment practices among counties. In 1910, voters amended the Constitution to direct BOE to value property owned by railways, companies selling gas and electricity, or telephone companies, as these companies own property that crosses county lines (then Section 14, now Section 19). Additionally, the Constitution allows the Legislature to authorize BOE assessment of property owned or used as “public utilities.”

In 1934, BOE required the owners of private, intercounty oil pipelines that were not public utilities to list and report all their physical property, including lands and rights-of-way, so they could assess and tax those properties pursuant to the Constitution. Soon after, pipeline owners challenged BOE’s authority to assess the lands and rights of way because they do not meet the definition of “pipelines.” As a result of the litigation, BOE did not treat private, intercounty pipelines as including land or rights-of-way for many years, but reversed course in 1982. Firms owning pipelines then sued BOE, arguing that while they clearly had authority to assess the pipelines themselves, the land and rights of way were outside their reach. After years of litigation, an appellate court decision transferred the duty for assessing intercounty pipeline rights-of-way from the BOE to County Assessors.<sup>1</sup>

The decision directed BOE to refund its previously imposed assessments, while providing that county assessors were to instead levy escape assessments retroactively to the 1984-85 tax year based on their own determinations as to the value of these interests. To avoid additional litigation based on local valuations, assessors and pipeline owners negotiated an agreement,

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<sup>1</sup> *Southern Pacific Pipe Lines, Inc. v. State Board of Equalization*, 14 Cal.App.4th 42 (1993).

which the Legislature codified (AB 1286, Takasugi, 1996). AB 1286 set forth a specific valuation methodology, as assessors had not previously determined values for them, based on a tiered dollars-per-mile schedule that is based on the property's density classification, adjusted annually for inflation, which is entitled to the presumption of correctness. The Legislature has extended the methodology four times, but it's set to expire again on January 1, 2027 (AB 2612, Brewer, 2000; SB 1494, Committee on Revenue & Taxation, 2010; SB 803, Committee on Governance & Finance, 2015; SB 825, Committee on Governance & Finance, 2021).

BOE wants to extend the methodology another five years.

### **Proposed Law**

The bill extends the sunset dates for the specific valuation methodology for intercounty pipeline rights-of-way for five years, through the 2030-31 fiscal year.

### **State Revenue Impact**

According to BOE, SB 1437 results in "no fiscal variation from the existing method for all counties in California."

### **Comments**

1. Purpose of the bill. According to BOE, "during the 29 years that the methodology has been in effect, Assessors and taxpayers alike have benefited from fair assessments and a notable absence of valuation disputes. All interested parties have supported the previous extensions of the sunset dates, and the BOE recently voted to sponsor the proposal."
2. The right way to define right of way. The term "right of way" is sometimes used to describe an easement, which is the legal right belonging to a party to pass over the land of another party, but it is also used to describe that strip of land upon which railroad companies construct their roadbed. The term refers to the land itself, not the right of passage over it. Courts have recognized that a right of way represents a distinct property interest separate from the underlying fee and represents a taxable property interest, whether held as a possessory interest, easement, or fee interest.<sup>2</sup>

### **Support and Opposition** (4/16/26)

Support: None received.

Opposition: None received.

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<sup>2</sup> *McMorris v. Pagano*, 63 Cal.App.2d 446 (1944)