



MONTANA DEPARTMENT OF REVENUE

Centrally Assessed Properties Valuation and Timeline

Revenue and Transportation Interim Committee
Senate Joint Resolution 23
Helena, MT

September 14, 2017

Central Assessment and Unit Valuation

- Montana law provides the criteria for determining what types of property are centrally assessed (15-23-101, MCA)
- Unit valuation methodology is used to determine the market value of centrally assessed property
- Unit valuation methods have been used to value property since the late 1800's. Central assessment and unit valuation methods have been confirmed by the Montana Supreme Court in:
 - *Western Union Telegraph 1932, Yellowstone Pipeline 1960, Puget Sound Power & Light Company 1988, PPL Montana 2007, PacifiCorp 2011, Puget Sound 2011 and Bresnan Comm. 2013*
- Unit valuation involves “appraising the whole pie and then taking Montana’s slice”
 - appraising the operating property of a company as a single entity and as a going concern, wherever the company is located in the U.S.
 - allocating a part of that overall appraised value to the state and apportioning the value to property within each taxing jurisdiction.

Central Assessment Criteria

- 15-23-101, MCA, requires the department to centrally assess each year property owned by a corporation or other person operating a single and continuous property¹ operated in more than one county or more than one state including but not limited to the following types of property:
- Railroad transportation, railroad car, telegraph, telephone, microwave, electric power or transmission lines, rate-regulated natural gas transmission or oil transmission pipelines, common carrier pipelines, pipeline carriers, natural gas distribution utilities, gas gathering facilities specified in MCA 15-6-138(5), canals, ditches, flumes, and scheduled airlines.

1. Single and continuous property can be represented by either a physical connection or a unity of operation. A unity of operation is represented by companies that have operating characteristics that exhibits unity where the property is functionally operated as a single entity but may not have a physical connection.

Centrally Assessed Classes of Property

Class 5 Rural Cooperatives / Pollution Control Equipment (3%)

Telephone Cooperatives – 10

Electric Cooperatives – 31

Independent Telephone Companies – 5

Electric Company Pollution Control Equipment – 9

Class 9 Pipelines and Electric Utilities (12%)

Pipelines – 28

Electric and Electric/Gas Utilities – 20

Class 12 Railroads and Airlines (Calculated annually, 2017 rate is 3.07%)

Railroads – 8

Airlines – 18

Private railroad companies/rail car – 244

Class 13 Electric Generation and Telecommunications (6%)

Telecommunications – 30

Electric Generation – 10

Class 14 Electric Wind Generation (3%) – 5

Class 15 CO₂, Liquid, and Enhanced Oil Recovery Pipelines (3%) – 1

Class 16 High-Voltage, Direct-Current (DC) Converter Stations (2.25%) – 0

Unit Valuation-

Three Approaches to Determine Market Value

Cost Approach:

- Original or historic cost less depreciation
- Information comes from the balance sheet and other audited records

Income Approach:

- Discounting an income stream using Discounted Cash Flow or Direct Capitalization of Income
- Information comes from income statements and financial markets

Market Approach:

- Market value of the stock and debt
- Comparable sales data
- Information comes directly from the market

Definitions

System or unit market value – the market value of all operating property owned by the company being appraised

Allocation – the process of assigning system or unit market value to Montana

Allocated or Montana market value – the market value of the Montana assets

Apportionment – the process of assigning the Montana market value to the proper taxing jurisdictions

Situs property – real and personal property other than a transmission or distribution system (machinery, equipment, buildings, and land)

Mileage property – Mileage property is generally continuous in nature and cannot be easily associated with a specific location, such as: railroad track, power lines, telecommunication underground cable or pipelines

The Appraisal Process and Timeline for Centrally Assessed Property

- All property is appraised annually as of *January 1* (lien date)
- All property is appraised using the cost, income, and market approaches when the appropriate information is available
- **Centrally Assessed Property Timeline:**
 - Reporting forms are sent to companies in *January*
 - Forms are due *March 31st* for Telecommunication Companies, Electric Utilities, Electric Cooperatives, Telephone Cooperatives, and Airlines
 - Forms are due *April 15th* for Railroads, Oil Pipelines, and Gas Pipelines
 - Appraisals are sent to companies by *June 1st*
 - Companies have 15 days to request an informal review from the date they receive the appraisal
 - Informal reviews are conducted from *March* through *June* of each year and adjustments are made to appraisals, if warranted, within 15 days after the informal review
 - Apportionment reports are sent to the companies and counties in *June* and *July* for review
 - Values are certified with all other property on the first Monday in *August*

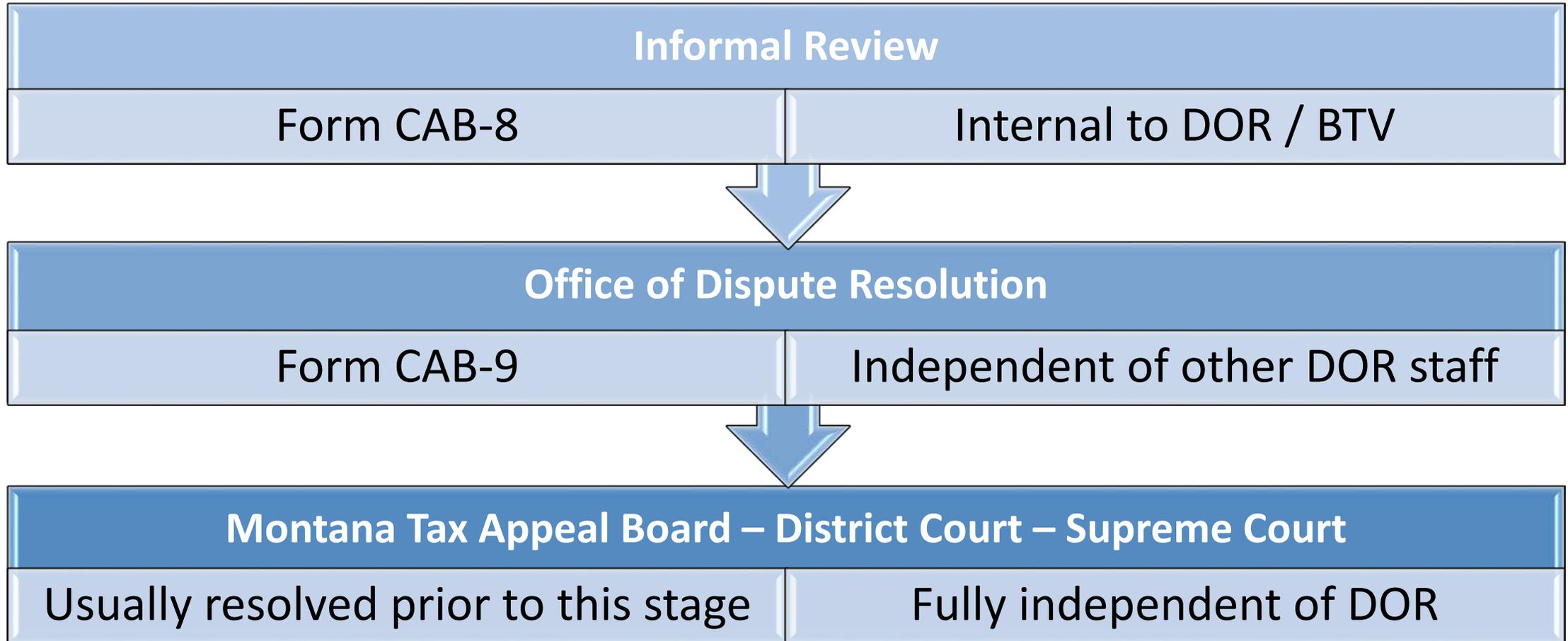
Timeline for Centrally Assessed Property

January Reporting forms sent to companies	February Capitalization Rate Study published – comments – finalized	March Reporting forms due for: Telecommunications, Electric Utilities, Cooperatives, and Airlines	April Reporting forms due for: Railroads and Pipelines
May Levy districts verified. New companies identified	June Appraisals completed and sent to companies	July Informal appeals processed and completed	August Values certified with Counties

Appeal Process for Centrally Assessed Property (MCA 15-23-101)

- The Department of Revenue (DOR) provides the company with a copy of the appraisal and advises the company of its requirement to request an informal review. The company has 15 days from the appraisal report date to object to the valuation by filing a written objection using form **CAB-8**. If the company does not file a written objection within 15 days, the appraisal report is deemed final. If a written objection is received, DOR schedules a meeting which provides the taxpayer an opportunity to present any additional information to consider before issuing a final notice of determination of value within 15 days of the meeting.
- If the company is dissatisfied with the notice of determination decision, it can request a further review by filing a Notice of Referral to the Office of Dispute Resolution (ODR) using form **CAB-9** within 15 days of receiving the final notice. The ODR process begins with a scheduling conference, often held by telephone. After that, the company may appear before a hearing officer who is independent of other DOR staff members. The decision from ODR is considered the DOR's final decision. If the company disagrees with the decision, the company may appeal to bodies outside the DOR.
- Steps after ODR involve the Montana Tax Appeal Board (MTAB), the District Court and the Montana Supreme Court. Taxpayers usually resolve disputes well before this stage and appeal very few decisions to these bodies. MTAB guarantees the right to have disputes weighed by a panel that is fully independent of DOR, and is simpler and less expensive than going to court. Ultimately, taxpayers can appeal to the courts. This gives them the ability to have a judicial body determine whether the decision made by DOR is fair and appropriate.

Appeal Process for Centrally Assessed Property (MCA 15-23-101)



Central Assessment Example

- The following example is of a fictitious company and situation.
- The example is meant to illustrate how the appraisal, allocation and apportionment of market value is determined.
- It is in no way meant to determine the true result of an appraisal, allocation, or apportionment for any company or any situations wherein property may be added or deleted.

Western Pipeline Company:

- Is a regulated oil transmission pipeline which owns assets in 10 western states
- Files the following reports with the Department of Revenue:
 - Montana Annual Report
 - FERC Report
 - SEC 10-K
 - Independent Auditor's Reports
 - Appraisal is for tax year 2017 (lien date January 1, 2017)

Western Pipeline Co. – Cost Approach

Original Cost Less Depreciation:

Plant in service	\$ 750,000,000
Materials and supplies	\$ 1,000,000
Construction work in progress	\$ 5,000,000
Less: accrued depreciation	<u>\$(104,000,000)</u>
Cost indicator including intangible personal property	\$ 652,000,000
Less: intangible personal property (5% reduction)	<u>\$ (32,600,000)</u>
Cost indicator, net of intangible personal property	<u>\$ 619,400,000</u>

Western Pipeline Co. – Market Approach

Stock and Debt:

Stock (equity):

Shares outstanding	30,000,000	
Average price per share	<u>x \$ 17.00</u>	
Market value of common stock		\$510,000,000

Debt (bonds):

Long term debt		<u>\$135,000,000</u>
Market indicator including intangible personal property		\$645,000,000
Less intangible personal property (5% reduction)		<u>\$(32,500,000)</u>

Market indicator, net of intangible personal property **\$612,750,000**

Reconciliation

- To arrive at a final value estimate, the appraiser must analyze the results of the various approaches to value and consider the strengths and weaknesses of each approach. This process of examining and resolving the differences among the various value indicators is called reconciliation or can also be referred to as correlation.
- There are many considerations that must be made when reconciling the indicators of value. Two of the most common considerations are:
 - Availability of data to complete each indicator
 - Quantity and quality of the components that went into each indicator
- Lack of reliability and the degree of applicability of each approach to the type of property being valued will cause differences in value indicators that must be reconciled.
 - Simply averaging value indicators is not a proper method since it would imply that all value indicators are equally valid, and this is rarely true.
 - For example, if a property is income producing, an income approach is often given significant weight. Yet, if a property is newly constructed a cost approach may be more meaningful as there is no historical income stream to consider.

Western Pipeline Co. – Correlated Unit Value

Approach	Source	Value	Weight
Cost Approach	<i>page 10</i>	\$619,400,000	20%
Income Approach	<i>page 11</i>	\$617,500,000	50%
Market Approach	<i>page 12</i>	\$612,750,000	30%

Reconciled system market value **\$616,000,000**

Western Pipeline Co. – Allocation Factor

Montana / All States = Factor

Gross installed cost \$120,000,000 / \$756,000,000 = 0.16 or 16%

Gross revenues \$19,000,000 / \$90,500,000 = 0.21 or 21%

Miles of pipe 4,175 miles / 17,500 miles = 0.23 or 23%

Average Montana allocation factor = 0.20 or 20%

Western Pipeline Co. - Allocation

System market value	\$ 616,000,000
Montana allocation factor <i>page 14</i>	<u> x 20%</u>
Montana market value	<u><u>\$ 123,000,000</u></u>

Western Pipeline Co. - Apportionment to County/Levy Districts

- The Market Value of an individual asset is determined by apportioning the Montana Market Value to the individual asset(s)
 - Asset Market Value = Assets Book Cost x Market to Book Ratio
 - Market to Book Ratio = Total Market Value / Total Book Cost
- Market to Book Ratio Example:
 - Montana Market Value = \$123,000,000 *page 16*
 - Montana Total Book Cost = \$120,000,000 *page 15*
- Market to Book Ratio = $\$123,000,000 \div \$120,000,000 = 1.025$

Western Pipeline Co. - Apportionment to County/Levy Districts -Continued

Example Apportionment to Counties:

- Western operates in 3 Montana Counties: Powell, Silver Bow, and Deer Lodge
- Book Cost is: \$5 Million in Deer Lodge, \$90 Million in Powell, and \$25 Million in Silver Bow.

The market value apportioned to each county would be:

County	Cost		MTBR		Market Value
Deer Lodge	\$5,000,000	x	1.025	=	\$5,125,000
Powell	\$90,000,000	x	1.025	=	\$92,250,000
Silver Box	\$25,000,000	x	1.025	=	\$25,625,000
TOTAL <small>page 15</small>	<u>\$120,000,000</u>				<u>\$123,000,000</u>

Western Pipeline Co. - Apportionment to County/Levy District Continued

Example Apportionment to Levy Districts for Deer Lodge County:

- Assuming Western has identified property in 3 districts and has reported the cost of property in each district identified below

The Apportionment to Deer Lodge Levy Districts would be:

District	Cost		MTBR		Market Value
City	\$1,000,000	x	1.025	=	\$1,025,000
Rural	\$3,000,000	x	1.025	=	\$3,075,000
Special	\$1,000,000	x	1.025	=	\$1,025,000
TOTAL	<u>\$5,000,000</u>				<u>\$5,125,000</u>

Western Pipeline Co.'s Tax Calculation

Deer Lodge County

Estimated taxes in Deer Lodge County assuming the Mill Levy in each district is 500 Mills:

District	Market Value	Tax Rate	Mill Rate	Tax
City	\$1,025,000	x 12%	x .500	= \$61,500
Rural	\$3,075,000	x 12%	x .500	= \$184,500
Special	\$1,025,000	x 12%	x .500	= \$61,500
TOTAL	<u>\$5,125,000</u>			<u>\$307,500</u>

Centrally Assessed Market Values

Centrally Assessed Industries	Property Class (Tax Rate)	No. of Cos. 2016	No. of Cos. 2017	2016 Market Value	2017 Market Value	Percent Change
Scheduled Airlines	12 (3.28%)	19	18	\$ 168,697,071	\$ 167,108,054	-0.94%
Electric Cooperatives	5 (3%), 9 (12%)	31	31	\$ 838,206,566	\$ 873,819,677	4.25%
Electric & Gas Utilities and Electric Generation Companies	5 (0% & 3%), 9 (12%), 13(6%) 14 (3%)	16	16	\$ 4,758,251,906	\$ 4,907,280,753	3.13%
Pipelines	9 (12%)	26	25	\$ 2,329,093,722	\$ 2,434,857,437	4.54%
Railroad	12 (3.28%)	8	8	\$ 2,674,059,720	\$ 2,941,882,631	10.02%
Telecommunications	13 (6%)	28	30	\$ 1,085,859,887	\$ 978,782,295	-9.86%
Telephone Cooperatives	5 (3%)	10	10	\$ 437,261,892	\$ 448,311,887	2.53%
Total		138	138	\$ 12,291,430,764	\$ 12,752,042,734	3.75%

Total Statewide Market Value of all Property

\$ 137,156,255,362 **\$ 150,348,839,225** **9.62%**

Centrally Assessed Percent of Total Statewide Market Value

8.45% **8.07%**

** Tax rates are to be used as a general indicator and do not take into consideration specific exemptions, incentives and abatements that taxpayers qualify for.*

Centrally Assessed Protested Taxes

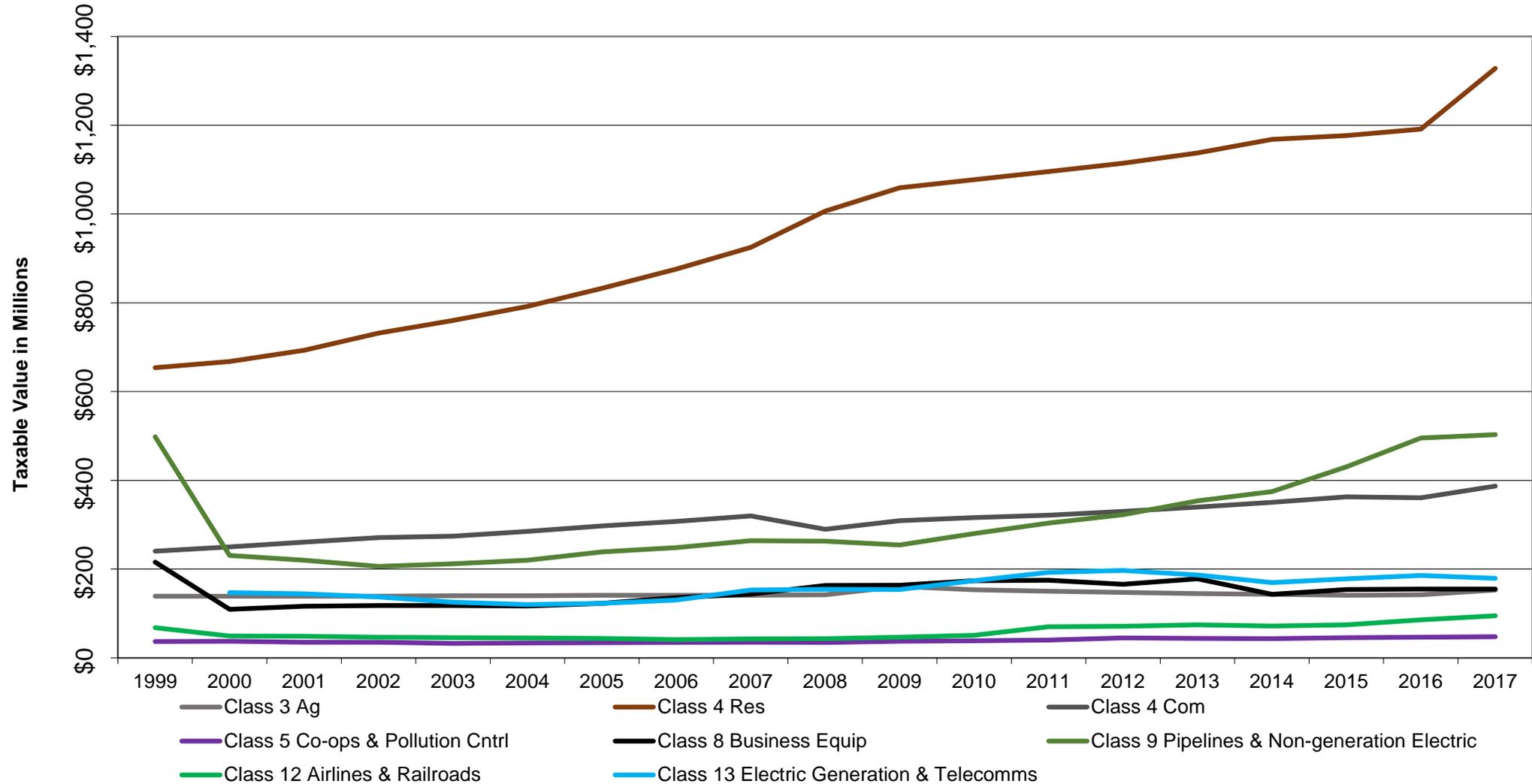
Company	Industry	Tax Year	Appeal Status	Total Taxes	Protested Taxes
Alpine Aviation	Airlines	2013 2014-2016	Supreme Court/ Abeyance ODR	557,225	358,237
Richland Aviation	Airlines	2014, 2015- 2016	Supreme Court/ Abeyance ODR	24,539	24,539
NaturEner Glacier 1	Wind Generation	2015 -16	MTAB	6,555,873	5,699,060
NaturEner Glacier 2	Wind Generation	2015-16	MTAB	2,405,962	1,777,116
NaturEner Rim Rock	Wind Generation	2015 -16	MTAB	3,650,026	2,297,117
Vision Net	Telecommunications	2015-16	L & C 1st Jud. Dist. Court	688,837	516,629
Hiland Crude, LLC	Pipelines	2013-2016		16,574,100	7,992,677
Omimex Resources, Inc.	Pipelines	2011-2015, 2016	District Court ODR	5,485,225	4,266,704
Plains Pipeline LP		2014-2016	MTAB	12,881,934	7,632,303
Rocky Mountain Pipeline System LLC	Pipelines	2014-2016	MTAB	5,495,540	2,628,462
Grand Total				54,319,261	33,192,843

Current Centrally Assessed Appeals

Company	Tax Year	Appeal Status	DOR Market Value
PacifiCorp	2017	ODR	\$ 188,886,384
NaturEner Glacier Wind 1	2017	ODR	\$ 92,962,189
NaturEner Glacier Wind 2	2017	ODR	\$ 79,388,080
NaturEner Rim Rock	2017	ODR	\$ 219,389,705
Talen Montana LLC	2017	ODR	\$ 43,983,160
Omimex Resources, Inc.	2017	ODR	\$ 11,511,061
Hiland Crude LLC	2017	ODR	\$ 271,432,833
Rocky Mountain Pipeline LLC	2017	ODR	\$ 21,435,836
Plains Pipeline LP	2017	ODR	\$ 95,000,173
Vision Net	2017	ODR	\$ 9,724,489
Ronan Telephone Company	2017	ODR	\$ 15,887,343
Western Montana CommunityTel Inc.	2017	ODR	\$ 1,436,521

Classes of Taxable Property

Historical Trend of the Taxable Value of Property 1999 to 2017



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Questions?