



Centrally Assessed Properties

Senate Taxation Committee
2009 Legislature
January 2009

Central Assessment and Unit Valuation

- 15-23-101, MCA, provides the criteria for determining what types of property is centrally assessed
- Unit valuation methodology is used to determine the market value of centrally assessed property
- Unit valuation involves “appraising the whole pie and then taking Montana’s slice”
 - appraising as a going concern, the entire operating property of a company, wherever the company is located in the U.S.
 - allocating a part of that overall appraised value to the state
- Unit valuation methods have been used to value property since the late 1800’s

Central Assessment Criteria

Centrally assessed companies are appraised annually and include:

Properties Specifically Listed in 15-23-101(1), MCA through (3); 42.22.102 (1), ARM

Railroad; railroad car; microwave; telecommunications; telephone cooperatives; gas utilities; electric utilities; electric cooperatives; ditch; canal; flume; natural gas pipeline; oil pipeline; and airlines.

AND

Physically Connected - Companies that actually have physically connected property that crosses a county or state boundary.

OR

Unity of Operation - 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.

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Centrally Assessed Classes of Property

Class 5 Rural Cooperatives (3%)

Telephone Cooperatives – 10
Electric Cooperatives – 31

Class 9 Pipelines and Electric Utilities (12%)

Pipelines – 19
Electric and Electric/Gas Utilities – 10

Class 12 Railroads and Airlines (Calculated annually, 2008 rate was 3.44%)

Railroads – 6
Airlines – 22
Private railroad companies/rail car – 250

Class 13 Electric Generation and Telecommunications (6%)

Telecommunications – 27
Electric Generation – 8

Class 14 Wind Generation Facilities (3%)

Wind Generation – 1

Centrally Assessed Property is reappraised annually

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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
- Information comes from income statements and financial markets

Market Approach:

- Market value of the equity and debt
- Comparable sales of like property
- Information comes directly from the market

Definitions

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

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

Allocated or Montana market value – the market value of all the Montana property

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

Situs property – real and personal property (machinery, equipment, buildings and land)

Mileage property – railroad track, power lines, telecommunication underground cable or pipelines for example

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.

Western Pipeline Company:

- Owns gathering and transmission 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 2009 (lien date January 1, 2009)

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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 before intangible personal property	\$ 652,000,000
Less intangible personal property (5% reduction)	<u>\$(32,600,000)</u>
Cost indicator after intangible personal property	\$ 619,400,000

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Western Pipeline Co. - Income Approach

Capitalization of Income:

Net operating income:		
Year-end 2007	\$ 57,000,000	
Year-end 2006	\$ 60,000,000	
- Average net operating income		\$ 58,500,000
Capitalization rate		<u>÷ 9%</u>
Income indicator before intangible personal property		\$650,000,000
Less intangible personal property (5% reduction)		<u>\$(32,500,000)</u>
Income indicator after intangible personal property		\$617,500,000

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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 before intangible personal property		\$645,000,000
Less intangible personal property (5% reduction)		<u>\$(32,250,000)</u>
Market indicator after intangible personal property		\$612,750,000

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Western Pipeline Co. – System Market Value

Cost approach <i>page 8</i>	\$ 619,400,000
Income approach <i>page 9</i>	\$ 617,500,000
<u>Market approach <i>page 10</i></u>	<u>\$ 612,750,000</u>
System Market Value	\$ 615,000,000

Western Pipeline Co. - Allocation Factor

Montana / All States = Factor

Gross cost	\$120,000,000 / \$756,000,000 = 0.16 or 16%
Gross revenues	\$25,000,000 / \$119,500,000 = 0.21 or 21%
Miles of pipe	4,175 miles / 17,500 miles = 0.24 or 24%

Average Montana allocation factor = 0.20 or 20%

Western Pipeline Co. – Montana Market Value

System Market Value <i>page 11</i>	\$ 615,000,000
Montana Allocation Factor <i>page 12</i>	<u>x 20%</u>
Montana Market Value	\$ 123,000,000

Apportionment to County/Levy Districts

- Market Value of an individual asset is determined by apportioning the Montana Market Value to the individual asset(s)
- Assets Book Cost x Market to Book Ratio = Asset MV

- Assume: Operates in 3 Montana Counties
 - Powell, Silver Bow, and Deer Lodge
 - Assets Book Cost per County is:
 - Powell \$90,000,000
 - Silver Bow \$25,000,000
 - Deer Lodge \$5,000,000
 - TOTAL *page 12* \$120,000,000

Apportionment to County/Levy District Continued

- Market Value/Book Cost = Market to Book Ratio (M/B)
- Montana Market Value = \$123,000,000 *page 13*
- Total Assets Book Cost = \$120,000,000 *page 12*
- $\$123,000,000 / \$120,000,000 = 1.025 \text{ M/B}$

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Apportionment to County/Levy District Continued

	Original Cost	x	M/B =	Asset MV
■ Powell	\$ 90,000,000	x	1.025 =	\$92,250,000
■ Silver Bow	\$ 25,000,000	x	1.025 =	\$25,625,000
■ Deer Lodge	\$ 5,000,000	x	1.025 =	<u>\$5,125,000</u>
■ TOTAL	\$120,000,000	x	1.025 =	\$123,000,000

Assume 3 levy districts in Deer Lodge County

■ District City	\$1,000,000	x	1.025 =	\$1,025,000
■ District Rural	\$3,000,000	x	1.025 =	\$3,075,000
■ District Spec	\$1,000,000	x	1.025 =	<u>\$1,025,000</u>
■ TOTAL	\$5,000,000	x	1.025 =	\$5,125,000

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Western Pipeline Co.'s Tax Calculation for Deer Lodge County

	Asset MV	x TR x	Mill =	Tax
District City	\$1,025,000	x .12	x .500	= \$61,500
District Rural	\$3,075,000	x .12	x .500	= \$184,500
District Spec	<u>\$1,025,000</u>	x .12	x .500	= <u>\$61,500</u>
TOTAL	\$5,125,000			\$307,500

Asset MV = Market Values from page 16

TR = Tax Rate 12%

Mill = Mill Levy 500

