



Montana Department of
REVENUE

*Centrally Assessed Property
Local Government Advisory Council
August 21, 2014*

Centrally Assessed Classes of Property

Class 5 Rural Cooperatives (3%)

Telephone Cooperatives – 10

Electric Cooperatives – 32

Class 9 Pipelines and Electric Utilities (12%)

Pipelines – 22

Electric and Electric/Gas Utilities – 11

Class 12 Railroads and Airlines (Calculated annually, 2014 rate was 3.28%)

Railroads – 9

Airlines – 15

Private railroad companies/rail car – 250

Class 13 Electric Generation and Telecommunications (6%)

Telecommunications – 29

Electric Generation – 8

Class 14 Wind Generation Facilities (3%)

Wind Generation – 3

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.

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 2014 (lien date January 1, 2014)

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

Western Pipeline Co. - Income Approach

Capitalization of Income:

Net operating income:

Year-end 2013 \$ 57,000,000

Year-end 2012 \$ 60,000,000

• Average net operating income \$58,500,000

Capitalization rate ÷ 9%

Income indicator before intangible personal property \$650,000,000

Less intangible personal property (5% reduction) (\$32,500,000)

Income indicator after intangible personal property \$617,500,000

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

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

Western Pipeline Co. - 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	<u>\$5,000,000</u>
• TOTAL <i>page 12</i>	\$120,000,000

Western Pipeline Co. - 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*
- $\$123,000,000 \div \$120,000,000 = 1.025$ M/B

Western Pipeline Co. - 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	<u>\$ 5,000,000</u>	<u>x 1.025</u>	<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	<u>\$1,000,000</u>	<u>x 1.025</u>	<u>= \$1,025,000</u>
• TOTAL	\$5,000,000	x 1.025	= \$5,125,000

Western Pipeline Co.'s Tax Calculation 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	\$1,025,000	x .12	x .500	= \$61,500
TOTAL	\$5,125,000			\$307,500

Asset MV = Market Values from page 16

TR = Tax Rate 12%

Mill = Mill Levy 500

Centrally Assessed Market Values

	Property Class (Tax Rate)	Number of Companies	2012 Market Value	2013 Market Value	Percent Change
<u>Centrally Assessed Property:</u>					
Railroad Companies	12 (3.28%)	9	\$ 1,934,251,916	\$ 2,031,488,904	4.8%
Electric & Gas Utilities and Electric Generation Companies	5 (3%), 9 (12%), 13 (6%), 14 (3%)	12	\$ 4,371,906,135	\$ 4,641,273,460	5.8%
Telecommunication Companies	13 (6%)	29	\$ 1,233,260,972	\$ 1,189,499,714	-3.7%
Scheduled Airline Companies	12 (3.28%)	15	\$ 161,562,348	\$ 166,191,446	2.8%
Telephone Cooperatives	5 (3%)	10	\$ 317,318,124	\$ 346,815,504	8.5%
Pipeline Companies	9 (12%)	22	\$ 1,183,507,196	\$ 1,390,191,776	14.9%
Electric Cooperatives	5 (3%)	32	\$ 788,467,585	\$ 773,543,731	-1.9%
Total		129	\$ 9,990,274,276	\$ 10,539,004,535	5.2%
<i>Total Statewide Market Value</i>			81,280,001,448	85,832,331,146	
<i>Percent of Total Statewide Market Value</i>			12.29%	12.28%	

Protested Taxes

Company	Year	Tax Protested	Total Uncontested	Total Tax	Protested %	State Portion of Protested Tax	Venue
Airlines:							
Alpine Air Aviation	2013				0.0%	-	No protest for 1st half Appeal filed direct to ODR, but no payments under protest were made
Pipelines:							
Ominex Resources, Inc.	2011	1,676,420	210,559	1,886,979	88.8%	342,255	Supreme Court
	2012	252,163	332,957	585,120	43.1%	71,239	ODR
	2013	368,928	122,977	491,905	75.0%	73,060	ODR
		<u>\$ 2,297,511</u>	<u>\$ 666,493</u>	<u>\$ 2,964,004</u>	<u>77.5%</u>	<u>\$ 486,554</u>	
Telecommunications:							
AT&T Mobility	2011	3,816,075	673,425	4,489,500	85.0%	641,802	Stayed at ODR
	2012	1,709,019	863,728	2,572,747	66.4%	286,917	Stayed at ODR
	2013	1,721,327	676,841	2,398,168	71.8%	286,373	Stayed at ODR
		<u>\$ 7,246,421</u>	<u>\$ 2,213,994</u>	<u>\$ 9,460,415</u>	<u>76.6%</u>	<u>\$ 1,215,092</u>	
Total Centrally Assessed		\$ 9,543,932	\$ 2,880,486	\$ 12,424,419	76.8%	\$ 1,701,646	

Industrially Assessed Companies

Company	Year	Tax Protested	Total Uncontested	Total Tax	Protested %	State Portion of Protested Tax	Venue
Oil Refineries:							
Phillips 66	2013	3,395,928	5,588,009	8,983,937	37.8%	679,186	STAB
		<u>\$ 3,395,928</u>	<u>\$ 5,588,009</u>	<u>\$ 8,983,937</u>	<u>37.8%</u>	<u>\$ 679,186</u>	
Total Industrial		\$ 3,395,928	\$ 5,588,009	\$ 8,983,937	37.8%	\$ 679,186	
Grand Total		\$ 12,939,861	\$ 8,468,495	\$ 21,408,356	60.4%	\$ 2,380,832	



Questions?