1 Department of Revenue Property Equalization Division

2

3 Adopted Rules Governing the Valuation and Assessment of Railroad

4 Operating Property

5

6 Rule as Adopted

7 13 MCAR S 1.0024 Valuation.

8   A.-B. [Unchanged.]

9   C. Income approach to valuation. The income indicator of

10 value will be calculated by averaging the Net Railway Operating

11 Income (as determined by the I.C.C.) of the railroad for the

12 most recent five years preceding the assessment. This average

13 income shall be capitalized by applying to it a capitalization

14 rate which will be computed by using the Band of Investment

15 Method. This method will consider:

16   1. The capital structure of railroads.

17   2. The cost of debt or interest rate paying particular

18 attention to imbedded debt of railroads.

19   3. The yield on preferred stock of railroads.

20   4. The yield on common stock of railroads.

21   For 1983 and subsequent years this capitalization rate will

22 be 12 percent.

23   An example of a computation of the capitalized income

24 approach to value is as follows:

25   XYZ Railroad

26 Net Railway Operating Income

27 1974	$ 1,712,750
28 1975	2,212,750
29 1976	2,812,750
30 1977	3,213,750
31 1978	2,813,000
32	
33 Total	$12,765,000
34 Average	$ 2,553,000
35	

36   Five year average Net Railway Operating Income Capitalized

37 at 12 percent (2,553,000 ÷ 12%) equals $21,275,000.

38   The income indicator of value computed in accordance with

39 this rule shall be weighted 50 percent of the total estimated

40 unit value of the railroad's property except in the case of

.1

1 bankrupt railroads or railroads having no net operating income

2 as provided for in 13 MCAR S 1.0024 F.; and railroads not

3 meeting the requirements for the use of the stock and debt

4 indicator of value. Where no stock and debt indicator of value

5 is used the income indicator will be weighted 75 percent.

6   D.-F.   [Unchanged.]