Department of Revenue

Proposed Permanent Rules Relating to the Valuation and Assessment of Utilities

Rules as Proposed

8100.0200 INTRODUCTION.

The commissioner of revenue will estimate the valuation of the entire system of a utility company operating within the state. The entire system will be valued as a unit instead of valuing the component parts, utilizing data relating to the cost of the property and the earnings of the company owning or operating the property. The resulting valuation will be allocated or assigned to each state in which the utility company operates. Finally, by the process of apportionment, the portion allocated to Minnesota will be distributed to the various taxing districts within the state. Most of the data used in the valuation, allocation, and apportionment process will be drawn from reports submitted to the Department of Revenue by the utility companies. These reports will include Minnesota Department of Revenue Annual Utility Reports (UTL forms), Reports to the Minnesota Public Utilities Commission, Annual Reports to Shareholders, Annual Reports to the Federal Energy Regulatory Commission and Annual Reports to the Interstate Commerce Commission. Periodic examinations of the supporting data for these reports will be made by the Department of Revenue.

The methods, procedures, indicators of value, capitalization rates, weighting percents, and allocation factors will be used as described in parts 8100.0300 to 8100.0600 for 1990 and subsequent years.

As in all property valuations, the commissioner of revenue reserves the right to exercise his or her judgment whenever the circumstances of a valuation estimate dictate the need for it.

8100.0300 VALUATION.

[For text of subps 1 and 2, see M.R.]

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Subp. 3. **Cost approach.** The cost factor to be considered in the utility valuation formula is the original cost less depreciation of the system plant, plus improvements to the system plant, plus the original cost of construction work in progress on the assessment date. The original cost of any leased operating property used by the utility must be reported to the commissioner in conjunction with the annual utility report. If the original cost of the leased operating property is not available, the commissioner shall make an estimate of the cost by capitalizing the lease payments. Depreciation will not be allowed on construction work in progress. Depreciation will be allowed as a deduction from cost in the amount allowed on the accounting records of the utility company, as such records are required to be maintained by the appropriate regulatory agency, except that depreciation may be reduced if available information indicates the amount deducted does not equal actual accrued depreciation when the current estimated remaining life is considered.

Depreciation, however, shall not exceed the prescribed percentage of cost: for electric companies, 20 percent; for gas distribution companies, 50 percent; and for pipeline companies, 50 percent. If the amount of depreciation shown on the company's books exceeds these percentages, the company may deduct ~~40-percent-of-the-excess-for-the-assessment-year-1990-and~~ 50 percent of the excess ~~for-the-assessment-year-1991-and subsequent~~.

The cost indicator of value computed in accordance with this subpart will be weighted for each type of utility company as follows: electric companies, 85 percent; gas distribution companies, 75 percent; and pipeline companies, 75 percent.

The following example illustrates how the cost indicator of value would be computed for an electric company:

1.	Utility Plant	$200,000,000
2.	Construction Work in Progress	$ 5,500,000
3.	Total Plant	$205,500,000
4.	Nondepreciable Plant (Land, Intangibles, C.W.I.P.)	$ 17,500,000
5.	Depreciable Plant	$188,000,000
6.	Book Depreciation	$ 40,000,000

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7.	Maximum Depreciation (20%)	$ 37,600,000
8.	~~40%~~ 50% Excess Depreciation Allowance	$ ~~960,000~~ $ 1,200,000
9.	Total Allowable Depreciation	~~$ 38,560,000~~ $ 38,800,000
10.	Total Cost Indicator of Value	~~$166,940,000~~ $166,700,000

[For text of subps 4 to 8, see M.R.]

8100.0700 EQUALIZATION.

Subpart 1. **In general.** After the apportionment of value referred to in part 8100.0600 has been made, the values of structures valued by the commissioner must be equalized to coincide with the assessment levels of commercial and industrial property within each respective county receiving a share of the apportioned utilities value. This equalization will be accomplished through the use of an assessment/sales ratio.

Subp. 2. **Assessment/sales ratio computation.** A comprehensive assessment/sales ratio study compiled annually by the sales ratio section of the Local Government Services Division of the Department of Revenue will be used in this computation. The portions of this study which will be used for purposes of this part are known as the "County Commercial and Industrial Sales Ratio."

This commercial and industrial (C & I) sales ratio is computed through an analysis of the certificates of real estate value filed by the buyers or sellers of commercial or industrial property within each county. The information contained on these certificates of real estate value is compiled pursuant to requests, standards, and methods set forth by the Minnesota Department of Revenue acting upon recommendations of the Minnesota Legislature. The most recent C & I study available will be used for purposes of this part.

The median C & I sales ratio from this County Commercial and Industrial Sales Ratio study will be used as a basis to estimate the current year C & I median ratio for each county.

The process used to estimate this current year median ratio will be as follows:

The State Board of Equalization abstract of market value

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will be examined. The current estimated market value of commercial and industrial property within each county will be taken from this abstract. The amount of the value of new commercial and industrial construction ("new" meaning since the last assessment period), as well as the value of commercial and industrial property which has changed classification (for example, commercial to tax exempt property) will also be taken from the abstract. The value of new construction will then be deducted from the estimated market value, resulting in a net estimated current year market value for commercial and industrial property within the county. The value of commercial and industrial property which has changed classification will be deducted from the previous years estimated market value to arrive at a net estimated previous year market value for commercial and industrial property within the county. The net current year value will be compared to the net previous year's estimated market value for commercial and industrial property within the county and the difference between the two values noted. This difference will be divided by the previous year's net estimated market value for commercial and industrial property to find the percentage of increase, or decrease, in assessment level for each year. This percent of change will be applied to the most recent C & I median ratio to estimate the current year's C & I median ratio. An example of this calculation for a typical county is shown below.

1990 E.M.V. for Commercial and Industrial Property	$12,000,000	
Less: New Construction	1,500,000	

1990 Net E.M.V. for C & I property		$ 10,500,000
1989 E.M.V. for C & I property	$10,250,000	
Less: Classification changes	250,000	

1989 Net E.M.V. for C & I property		10,000,000
Difference 1989 vs 1990 E.M.V.		500,000
Percent of change (500,000/10,000,000)		5%
1989 Median C & I ratio		88%
1990 Estimated Median C & I ratio (88% x 105%)		92.4%

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This same calculation is performed for each Minnesota county. If there are five or fewer valid sales of commercial and industrial property within a county during the study period, these few sales are insufficient to form the basis for a meaningful C & I ratio. Therefore, the median assessment/sales ratio to be used for purposes of the example computation in this subpart will not be the median C & I ratio but will be the weighted median ratio of all property classes within the county for which a sales ratio is available. This weighted median ratio is computed in the same manner using the same procedures and standards as the C & I ratio. In addition, the example computation in this subpart will not be performed using the commercial and industrial estimated market value but will use the estimated market value for all property within the county. All other aspects of the calculations are identical except for this substitution.

Class of Property	Amount of Value	Percent of Value	Median Ratio	Weighted Median Ratio
Residential	$ 20,000,000	20%	86%	17.00%
Agricultural	55,000,000	55%	95%	52.25%
Seasonal - Recreational	5,000,000	5%	90%	4.50%
Commercial Industrial	20,000,000	20%	85%	17.00%
Total	$100,000,000	100%		90.75%

Subp. 3. **Application of the estimated current year median assessment/sales ratio.** After the estimated current year median ratio has been calculated under subpart 2, it is used to adjust the apportioned estimated market value of utility structures valued by the commissioner. The value of these structures is reduced by the difference between 95 percent and the median ratio as adjusted in subpart 2. This is done by subtracting the current year median ratio, as adjusted, from the 95 percent provided for in Minnesota Statutes, section 278.05, subdivision 4, to arrive at an equalization factor. The estimated market value of utility structures is multiplied by the equalization factor to arrive at the reduction amount. The reduction amount is subtracted from the estimated market value of the utility structures to arrive at the equalized market value of

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structures. In no instance will any adjustment be made if, after comparing the current year median sales ratio as adjusted to the assessment level of utility structures, the difference between the two is ten percent or less. An example of this adjustment is as follows:

	County A	County B
Estimated Level of Assessment for Utility Property*	100.00%	100.00%
95 percent provided for in Minnesota Statutes, section 278.05, subdivision 4	95.00%	95.00%
County Commercial/Industrial Sales Ratio	87.00%	93.00%
Equalization Factor	8.00%	0.00%
Estimated Market Value of Structures	1,000,000	1,000,000
Reduction in Value	80,000	0
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Equalized Market Value of Structures	920,000	1,000,000**
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*For purposes of this example, assume that utility property is assessed at 100 percent of market value.

**No adjustment is made because the Estimated Current Year Median Sales Ratio is within ten percent of the assessment level of utility property.

All utilities operating within a particular county will be equalized at the same percentage. No adjustment for equalization will be made to machinery or personal property.

These equalized estimated market values of utility structures valued by the commissioner will be forwarded to the county assessor denoting specific utility companies and taxing districts together with personal property and machinery values pursuant to Minnesota Statutes.

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