



State Assessed Property Section

Overview of State Assessment

This presentation is for educational purposes only. It is meant to accompany an oral presentation on November 4, 2015 and not to be used as a standalone document.

This presentation is based on the facts and circumstances being discussed, and on the laws in effect when it is presented. It does not supersede or alter any provisions of Minnesota laws, administrative rules, court cases, or revenue notices.

If you have any questions, contact us at sa.property@state.mn.us, 651-556-6091, or consult a tax professional.

Outline

- Overview of the State Assessed Property Section (SAPS)
- Unit Valuation
- Utility & Pipeline Valuation
- Railroad Valuation
- Market Value Definitions
- Use of State Assessed Values

Overview of the State Assessed Property Section

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Overview of the State Assessed Property Section

Responsibilities

- Utility & Pipeline Property Valuation
- Railroad Property Valuation
- Wind & Solar Production Tax
- Airline Flight Property Tax

Unit Valuation

Unit Valuation

What is Unit Valuation?

Appraising the overall business enterprise as a total unit or as a single, functionally integrated group of assets operating at their highest & best use.

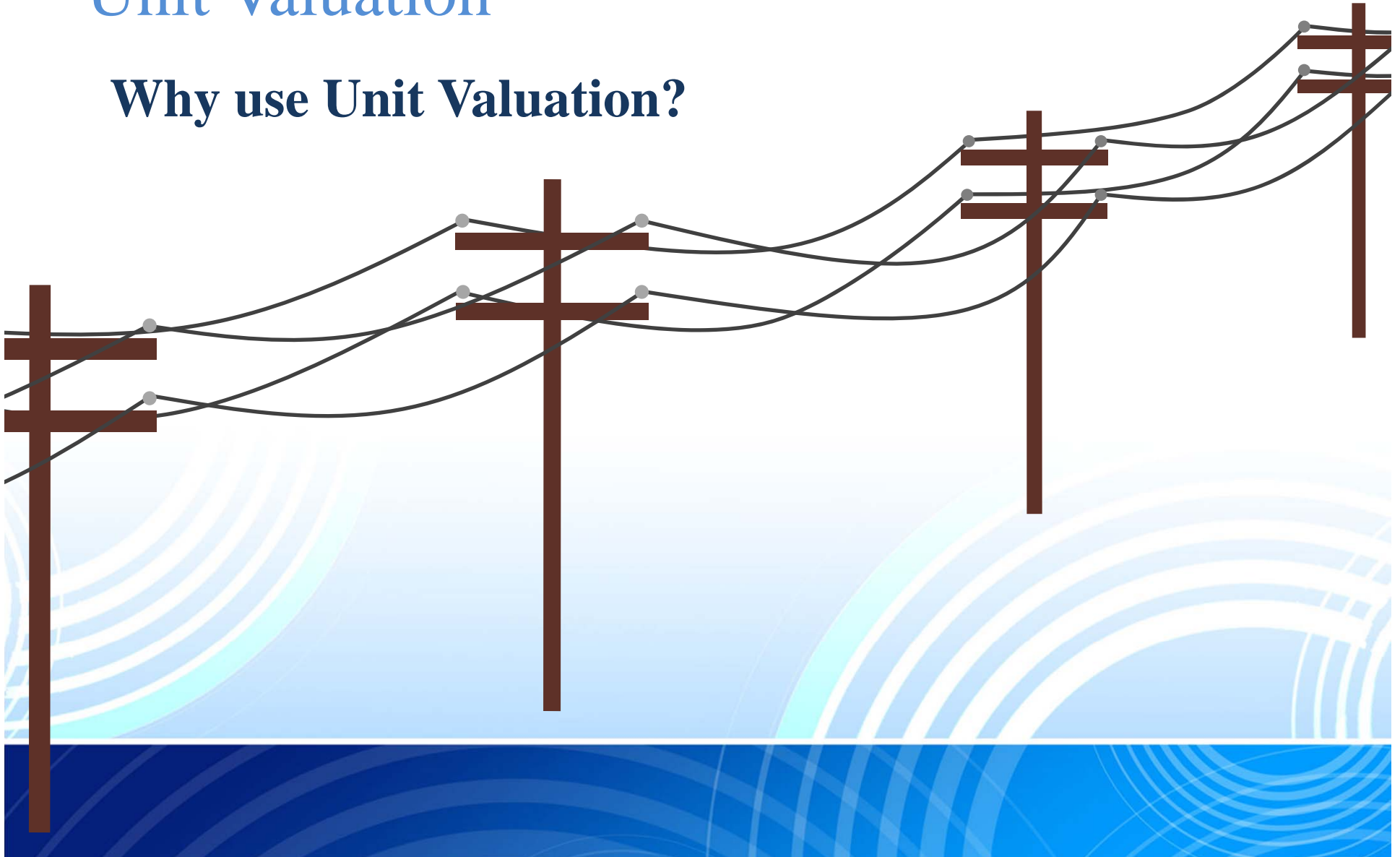
Unit Valuation

Why use Unit Valuation?

- Law
- Utility, Pipeline, & Railroad property cross multiple taxing jurisdictions.
 - County
 - State
 - International

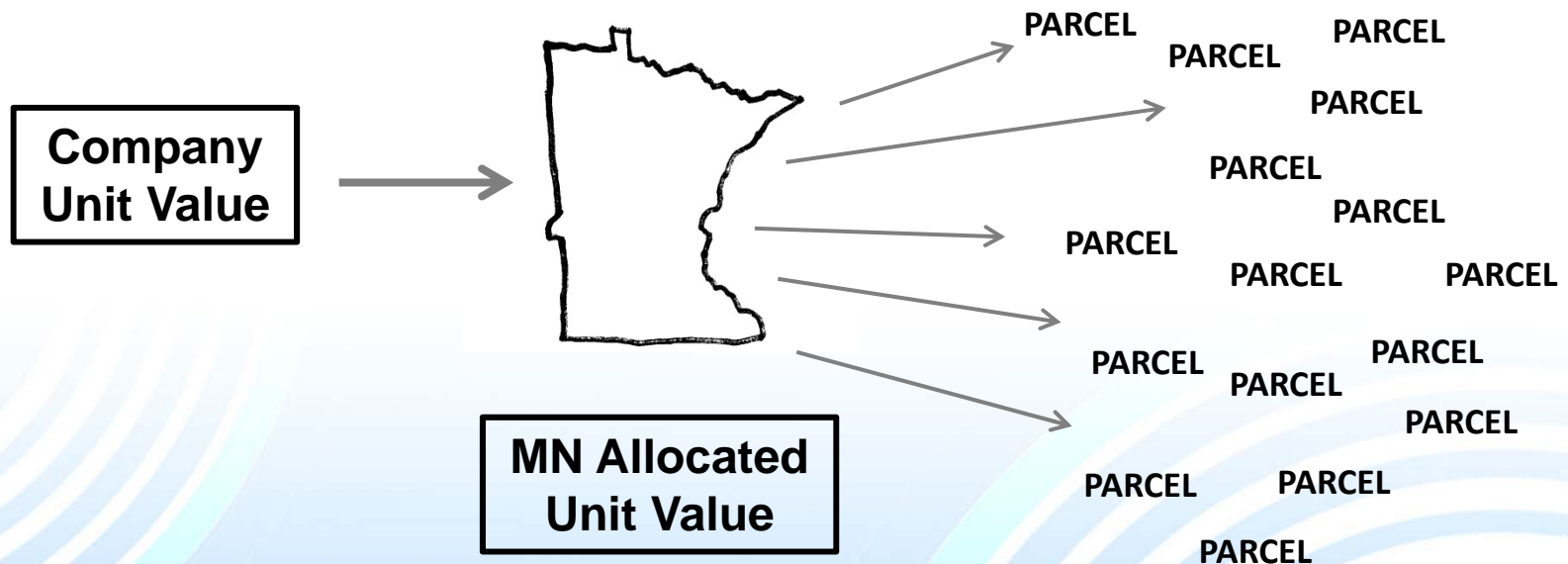
Unit Valuation

Why use Unit Valuation?



Unit Valuation

What do we do with the unit value?



Utility & Pipeline Valuation

Utility & Pipeline Valuation

Timeline:

- Jan. 2nd : Assessment Date
- Mar. 31st : Filing Deadline
- Mar. 31st – June 30th : Valuations Sent to Companies
- * June 30th : Preliminary Values sent to Counties
- August 1st : Final Orders to the Counties
- Oct. 1st : Deadline to issue Corrections
- October : Apportioned Values sent to Companies
- Dec. 31st : Deadline to correct clerical errors

Utility & Pipeline Valuation

Valuation Process

- Review & Audit the Returns
- Calculate Unit Value
 - Cost Approach
 - Income Approach
 - Market Approach (Stock & Debt Model)
- Allocate Unit Value to Minnesota
- Deduct Locally Assessed & Exempt Property in MN
- Apportion value to all operating property in MN

Utility & Pipeline Valuation

Valuation Process

- Unit Valuation
 - Cost Approach
 - Income Approach
 - Market Approach
(Stock & Debt Model)



UNIT VALUE

Utility & Pipeline Valuation

Valuation Process



MN Allocated Market Value
(Deductions to Allocated MV)

MN Apportionable Market Value

Utility & Pipeline Valuation

Valuation Process

$$\frac{\text{MN Apportionable Market Value}}{\text{Total Original Cost of all Property}} = \text{Apportionment Factor}$$

Utility & Pipeline Valuation

Valuation Process

$$\text{Apportionment Factor} \times \text{Original Cost of Property} = \text{MN Estimated Market Value of the Property}$$

Property	Original Cost	Appt. Factor	Est. Market Value
Property 1	\$ 450,000	.75	\$ 337,500
Property 2	\$ 100,000	.75	\$ 75,000
Property 3	\$ 250,000	.75	\$ 187,500
Property 4	\$ 200,000	.75	\$ 150,000
TOTAL	\$ 1,000,000	.75	\$ 750,000

Railroad Valuation

Railroad Valuation

Timeline:

Dec 1st : Deadline for Property Record Changes

Jan. 2nd : Assessment Date

Mar. 31st : Filing Deadline

Mar. 31st – May 31st : Valuations Sent to Companies

June 30th : Final Equalized Orders Sent to County

August 31st : Deadline to Issue Corrections

December 31st : Deadline to correct clerical errors

Railroad Valuation

Valuation Process

- Review & Audit the Annual Reports
- Calculate Unit Value
 - Cost Approach
 - Income Approach
 - Market Approach (Stock & Debt Model)
- Allocate Unit Value to Minnesota
- Deduct Locally Assessed & Exempt Property in MN
- Apportion value to all operating property in MN

Railroad Valuation

Valuation Process

Cost Approach

- Original Cost Less Book Depreciation
- Calculate Obsolescence Factor – Per Rule
 - Rate of Return
 - Freight Traffic Density
 - Gross Profit Margin

Railroad Valuation

Valuation Process

Income Approach

- 5 year average of NROI

Railroad Valuation

Valuation Process

- Cost Approach
- Income Approach
- Market Approach
(Stock & Debt Model)



UNIT VALUE

Railroad Valuation

Valuation Process



MN Allocated Market Value
(Deductions to Allocated MV)

MN Apportionable Market Value

Railroad Valuation

Valuation Process

MN Apportionable Market Value

Distributed among operating parcels based on:

- Railroad Operating Land
- Miles of Track
- Railroad Operating Structures

Market Value

Market Value

MN Statute Definition of Market Value

M.S. 272.03, subd. 8:

The usual selling price at the place where the property to which the term is applied shall be at the time of assessment; being the price which could be obtained at a private sale or an auction sale, if it is determined by the assessor that the price from the auction sale represents an arm's length transaction. The price obtained at a forced sale shall not be considered.

Market Value

Estimated Market Value (EMV)

- Price the property would likely sell for on the open market.

Taxable Market Value (TMV)

- The value that is actually used in calculating property taxes

Use of State Assessed Values

Use of State Assessed Values

State Assessed values sent to Counties

Counties will:

- Enter in state assessed equalized taxable market values
- Calculate the net tax capacities
- Calculate the taxes

Use of State Assessed Values

How is Net Tax Capacity determined?

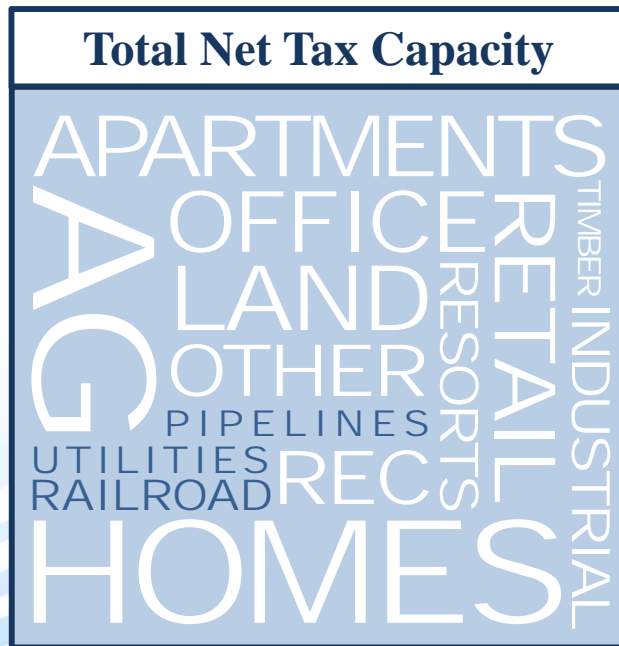
$$\text{Taxable Market Value} \times \text{Classification Rate} = \text{Net Tax Capacity}$$

How is Local Tax Rate determined?

$$\frac{\text{Property Tax Revenue Needed}}{\text{Total Net Tax Capacity}} = \text{Local Tax Rate}$$

Use of State Assessed Values

Example:



= \$12 Million

Use of State Assessed Values

Example:

$$\frac{\text{Property Tax Revenue Needed}}{\$ 12,000,000} = 100\%$$

\$ 12,000,000

\$ 12,000,000

Total Net Tax Capacity

Local Tax Rate

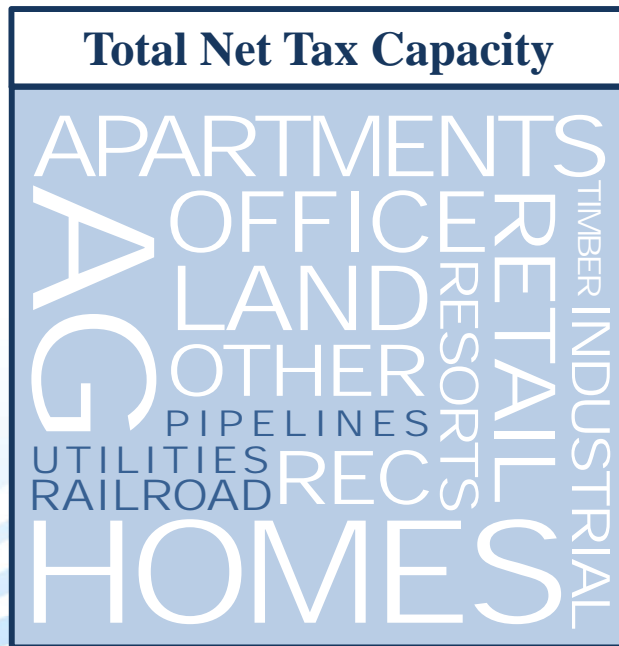


$$= \$ 2,000 \times 100\% = \$ 2,000$$

Net Tax Capacity Local Tax Rate Property Tax Bill

Use of State Assessed Values

Example:



= ~~**\$12 Million**~~
\$10 Million

Use of State Assessed Values

Example:

$$\frac{\text{Property Tax Revenue Needed}}{\text{Total Net Tax Capacity}} = \text{Local Tax Rate}$$

Property Tax Revenue Needed

~~\$ 12,000,000~~

\$ 12,000,000

~~\$ 12,000,000~~

\$ 10,000,000

Total Net Tax Capacity

Local Tax Rate



$$\text{Net Tax Capacity} \times \text{Local Tax Rate} = \text{Property Tax Bill}$$

\$ 2,000 × **120%** = **\$ 2,400**

Net Tax Capacity Local Tax Rate Property Tax Bill