

# 2018 State Assessed Property Spring Forum

March 1, 2018

# Agenda

## Topic

### **Department of Revenue**

- Welcome & Introduction
- Valuation Reminders and Updates
- Administrative Appeals
- Updates on Reports & Instructions
- Cap Rate Data Inputs
- Cost of Debt vs. Indexing

### **Open Discussion**

# Agenda

## Topic

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- Valuation Reminders and Updates
- Administrative Appeals
- Updates on Reports & Instructions
- Cap Rate Data Inputs
- Cost of Debt vs. Indexing

### **Open Discussion**

# Valuation Reminders and Updates

Jon Van Nurden, Supervisor, State Assessed Property Section

# Administrative Appeals

Jon Van Nurden, Supervisor, State Assessed Property Section

# Administrative Appeals

**State Assessed Property Administrative Appeal Process**

**Agreement Determining Valuation**

**Administrative Appeal and Appeal to Tax Court**

# Appeal Options to the Department of Revenue

## **Previously:**

- 1. Administrative Appeal**
- 2. Informal Appeal**

## **Going forward:**

- 1. Expanded Administrative Appeal**

# State Assessed Property Administrative Appeal Steps

## **Administrative Appeal Process Steps**

1. Department issues the valuation
2. Property owner reviews the valuation
3. Property owner has 30 days to submit a written appeal
4. Department will schedule a conference within 20 days of the appeal
5. Department will issue a determination within 30 days of the conference
6. Property owner may appeal the determination to Minnesota Tax Court



# State Assessed Property Administrative Appeal Updates

## **Administrative Appeal Conference**

- Property owner
- Assessor
- Appeal panel
- Resolution

# Agreement Determining Valuation

## Agreement Determining Valuation

- When in the best interest of the state
- In writing
- Signed by the property owner
- Signed by the commissioner
- Final and conclusive

# Administrative Appeal and Appeal to Tax Court

**An administrative appeal is dismissed if a company files an appeal of the same order with the Tax Court**



# Questions?

Jon Van Nurden



# 2018 Updates to Reports & Instructions

Jesse Larson

# 2018 Reports and Instructions

## Utility Market Value Report Updates

- PDF format, instead of Excel format
- Fixed amount of rows/lines in the return
- Added Section 11 “Additional Notes”



Certification by Utility, Cooperative, or Pipeline Company

You must include this certification when filing a MARKET VALUE report, or we cannot process the report.

The report, as submitted, represents the system-wide utility, cooperative, or pipeline property that is owned and/or leased by the company including that portion located within Minnesota. The information contained in this report relates to the following company:

\_\_\_\_\_ on January 2 of the assessment year.  
*Company Name*

In the event that the commissioner of revenue requests information not included in this submission, the company agrees to provide the information promptly and in the requested format.

\_\_\_\_\_  
*Initial  
Here*

\_\_\_\_\_  
*Signature of Authorized Company Representative*      \_\_\_\_\_ *Date*      \_\_\_\_\_ *Title of Company Representative \**

*Company Representative's Email Address:* \_\_\_\_\_

I certify that I am the above named officer of said company, and that I have the authority to sign this form on behalf of the taxpayer. I have examined the electronic file, accompanying schedules and statements. To the best of my knowledge and belief, the report is true and complete for the year stated.

**Making false statements on this report is against the law.** Minnesota Statutes, section 609.41 states that anyone giving false information in order to avoid or reduce their tax obligation is subject to a fine of up to \$3,000 and/or up to one year in prison.

*\* The company representative must be a company President, Vice President, General Superintendent, Auditor, Tax Agent, or some other general officer of the reporting utility or pipeline company, who is authorized by the company to file this report.*

Market Value Report for Assessment Year:  Due Annually on March 31  
Date Submitted:

Revision ☐

Revision Checkbox

**SECTION 1**  
**Company Information**

Company Name

Minnesota Tax ID

Street Address

City, State, ZIP Code

Contact Person and Title

Phone Number  Email Address

**SECTION 2**  
**Allocation & Customer Information**

		System	Minnesota	Source, including form and page number	Comments
1	Operating Revenues				
2	Units Sold or Throughput				
3	Metered Customers				

**SECTION 3**  
**Plant Accounts**

		System	Minnesota	Source, including form and page number	Comments
4	Plant in Service				
5	Construction Work in Progress (CWIP)				
6	Construction Completed Not Classified (CCNC)				
7	Leased Property				
8	Contributions in Aid of Construction (CIAC)				
9	Land				
10	Intangible Plant				
11	Other Plant Item(s):				
12	Total Plant in Service (per FERC, RUS, etc.)	\$ 0	\$ 0	Total lines 4-11	

Other Item(s)



For Sections 7 and 8 (below), you must provide an additional statement for each item listed. You must provide the statute under which the property is exempt if one is not already listed.

		Minnesota	Source, including form and page number	Comments
<b>SECTION 7</b>	Minnesota Excludable Property - Non-Depreciable			
	52 Land			M.R. 8100.0100, Subp.10
	53 MN Qualifying CWIP (Not in Place)			M.R. 8100.0100, Subp.13
	54 Locally Assessed or Non-taxable CWIP			
	55 Other Non-Depreciable Excludable(s):			
	56 Total Non-Depreciable Excludable Property	\$ 0	Total of lines 52 - 55	
<b>SECTION 8</b>	Minnesota Excludable Property - Depreciable			
	57 Land Rights			
	58 Locally Assessed Structures			M.R. 8100.0100, Subp.11
	59 Office Furniture and Fixtures			
	60 Transportation Equipment			
	61 Stores, Tools, Shop, & Garage Equipment			
	62 Power Operated Equipment			
	63 Communication Equipment			
	64 Transportation - General Plant			
	65 Inventory of Meters			Only include meters NOT installed
	66 Pollution Control			Must provide order
	67 Electric Distribution Lines in Rural Areas			
	68 Shop/Lab Equipment			
	69 Office Equipment - General Plant			
	70 General Plant Items			
	71 Heavy Equipment			
	72 Miscellaneous Equipment			
	73 Solar Energy Generating Systems			M.S. 272.02, subd. 24
	74 Wind Energy Conversion Systems			M.S. 272.02, subd. 22
	75 Intangible Plant			
	76 Other Depreciable Excludable(s):			
77 Total Depreciable Excludable Property	\$ 0	Total of lines 57 - 76		

SECTION 9  
Long-Term Debt

Attach Schedule of Long Term Debt

SECTION 10  
Forecasts

Attach Financial Forecasts, including, but not limited to income, expense, and capital expenditures.

Detailed income and expense figures and anticipated income and expenses collected by the department is private or nonpublic data.

SECTION 11  
Additional Notes

**Additional Notes**





# Questions?

Jesse Larson



# 2018 Cap Rate Data Inputs

Jesse Larson

# Capitalization Rate Inputs

## Capital Structure

Capital Structure	2018 AY (Avg.)		2017 AY	
	Debt	Equity	Debt	Equity
Electric	32.70%	67.30%	36.00%	64.00%
Gas Distribution	27.63%	72.37%	26.00%	74.00%
Gas Transmission Pipeline	39.70%	60.30%	39.00%	61.00%
Fluid Transportation Pipeline	42.88%	57.12%	36.00%	64.00%
Railroad, Class I	17.06%	82.93%	21.00%	79.00%
Railroad, Others	34.78%	65.22%	31.00%	69.00%

# Capitalization Rate Inputs

## Risk Free Rate

Risk-free rate	2018 AY	2017 AY
Year-End U.S. Treasury 20-year Coupon Bond Yield	2.58%	2.79%
4th Quarter Average U.S. Treasury 20-year Coupon Bond Yield	2.62%	2.52%

# Capitalization Rate Inputs

## Equity Risk Premium

Equity Risk Premium	2018 AY	2017 AY
Ex Post		6.94%
Supply Side		5.97%
Dr. Damodaran's	5.08%	5.69%
Ex Ante		5.53%
Duff & Phelps		5.50%
Graham and Harvey	4.02%	
Fernandez, Pershin & Acin	5.70%	

# Capitalization Rate Inputs

## Cost of Debt

### Corporate Bond Yield Averages - Year Ending 2017 (2018 AY)

Industrial Bonds				
	Aaa	Aa	A	Baa
Jan	3.92	4.00	4.17	4.70
Feb	3.95	4.02	4.19	4.70
Mar	4.01	4.07	4.23	4.74
Apr	3.87	3.92	4.11	4.62
May	3.85	3.92	4.09	4.60
Jun	3.68	3.78	3.92	4.41
Jul	3.70	3.78	3.95	4.41
Aug	3.63	3.76	3.90	4.38
Sep	3.63	3.75	3.89	4.37
Oct	3.60	3.74	3.90	4.37
Nov	3.57	3.68	3.85	4.37
Dec	3.51	3.60	3.79	4.31
Avg.	3.74	3.84	4.00	4.50

Public Utility Bonds				
	Aaa	Aa	A	Baa
Jan	---	3.96	4.14	4.62
Feb	---	3.99	4.18	4.58
Mar	---	4.04	4.23	4.62
Apr	---	3.93	4.12	4.51
May	---	3.94	4.12	4.50
Jun	---	3.77	3.94	4.32
Jul	---	3.82	3.99	4.36
Aug	---	3.67	3.86	4.23
Sep	---	3.70	3.87	4.24
Oct	---	3.74	3.91	4.26
Nov	---	3.65	3.83	4.16
Dec	---	3.62	3.79	4.14
Avg.	---	3.82	4.00	4.38



# Capitalization Rate Inputs

## Betas

Betas	2018 AY	2017 AY
	Average Beta	Selected Beta
Electric	0.73	0.72
Gas Distribution	0.70	0.70
Gas Transmission Pipeline	1.29	1.10
Fluid Transportation Pipeline	1.25	1.05
Railroad, Class I	1.13	1.13
Railroad, Others	1.50	1.40

# Capitalization Rate Inputs

## Dividend Growth Models

Dividend Growth Models	2018 AY		2017 AY	
	DGM, Earnings (Avg.)	DGM, Dividends (Avg.)	DGM, Earnings	DGM, Dividends
Electric	8.95%	8.35%	9.30%	9.00%
Gas Distribution	8.84%	7.53%	7.90%	6.50%
Gas Transmission Pipeline*^	12.50%	---	13.45%	---
Fluid Transportation Pipeline*^	19.69%	---	15.55%	---
Railroad	10.77%	9.60%	10.30%	11.85%

Source of growth estimates is Value Line.

\* Source of growth estimate for the 2017 and 2018 assessment is Yahoo! Finance.

^ Displaying median, due to outliers in data.

# Capitalization Rate Inputs

## New CAPM Models

- **Graham & Harvey (August 2016):** Equity Risk Premium based on CFO Survey
- **Fernandez, Pershin, & Acin (April 2017):** Equity Risk Premium based on academic, and company surveys

# Capitalization Rate Inputs

## Short-term Growth Rates

Short-term growth	2018 AY	2017 AY
Electric	5.87%	5.38%
Gas Distribution	5.78%	5.25%
Gas Transmission Pipeline*	6.52%	7.74%
Fluid Transportation Pipeline*	11.47%	8.97%
Class I Railroads	9.08%	8.78%
Other Railroads	5.50%	6.50%

Source of growth estimates is Value Line.

\* Source of growth estimate for the 2017 and 2018 assessment is Yahoo! Finance.

# Capitalization Rate Inputs

## Long-term Growth Rates and Inflation

Long-term growth	2018 AY	2017 AY
Risk-free rate	2.58%	2.79%
World Bank forecasted change in GDP, 2020 and 2018, respectively	2.90%, 3.00%	2.90%
Trading Economics forecasted GDP growth for 2020	2.60%	2.60%
OECD forecasted growth rate 2031 -2060 (2014 Publication)	1.70%	1.70%

Estimated Inflation, using inflation-indexed and non-inflation-indexed U.S. securities

10-Year	20-Year	30-Year
1.87%	1.91%	1.74%

# Capitalization Rate Inputs

## Direct Capitalization Rate – Equity Component

Direct Equity Component	2018 AY (not finalized)	2017 AY
Electric	4.72%	5.43%
Gas Distribution	4.02%	4.76%
Gas Transmission Pipeline	8.69%	9.11%
Fluid Transportation Pipeline	8.52%	8.54%
Class I Railroads	5.24%	5.52%
Other Railroads	5.21%	5.46%

# Guideline Company Selection for 2018 Study

## Electric

Allete Inc.

Alliant Energy Corp.

American Electric Power Co Inc.

Ameren Corp.

Black Hills Corp.

CenterPoint Energy Inc.

CMS Energy Corp.

DTE Energy Company

Entergy Corp.

MGE Energy Inc.

Northwestern Corp.

OGE Energy Corp.

Otter Tail Corp.

Vectren Corp.

WEC Energy Group

Xcel Energy Inc.

■ Included in 2017, & 2018

■ New for 2018

■ Removed for 2018

# Guideline Company Selection for 2018 Study

## Gas Distribution

Atmos Energy Corp.

Chesapeake Utilities Corp.

~~Delta Natural Gas Co. Inc.~~

New Jersey Resources Corp

NiSource Inc.

Northwest Natural Gas Co.

RGC Resources Inc.

South Jersey Industries

Southwest Gas

Spire Inc.

~~WGL Holdings Inc.~~

■ Included in 2017, & 2018

■ Added for 2018

■ Removed for 2018



# Guideline Company Selection for 2017 Study

## Gas Transmission

Boardwalk Pipeline Partners L.P.  
Enterprise Products Partners L.P.  
Kinder Morgan, Inc.  
ONEOK Partners  
TC PipeLines, L.P.  
Williams Partners, L.P.

■ Included in 2017, & 2018

■ New for 2018

■ Removed for 2018

# Guideline Company Selection for 2018 Study

## Fluid Transportation Pipeline

Buckeye Partners, L.P.

~~Holly Energy Partners, L.P.~~

Magellan Midstream Partners, L.P.

NuStar Energy, L.P.

Plains All American Pipeline, L.P.

■ Included in 2017, & 2018

■ New for 2018

■ Removed for 2018

# Guideline Company Selection for 2018 Study

## Railroad

Canadian National Railway

Canadian Pacific Railway

CSX Corp.

Genesee & Wyoming

Kansas City Southern

Norfolk Southern Corp.

Union Pacific Corp.

■ Included in 2017, & 2018

■ New for 2018

■ Removed for 2018



# Questions?

Jesse Larson



# Cost of Debt

YTM vs Indexing

Paul Winghart

# Background

- Employed at DOR in January 2018
- Instructor of undergrad Business & Economics at Bethel University from 2014 – 2017
- Interest Rate Strategist & Market Economist At RBC Wealth Management 2013 – 1998
- Graduated University of Minnesota with B.A. Economics March 1998

# Cost of Debt – YTM vs. Indexing

## Why

“....finding a better resource of actual debt issued by the guideline companies is ideal.” – SAPS DoR

Yield to Maturity (YTM) accurately & consistently captures the reinvestment income needed to make up the dollar return shortfall otherwise incurred; hence YTM is a truer cost of debt<sup>1</sup>.

<sup>1</sup> Fabozzi, Frank J. 2000 pp 190

# Cost of Debt – YTM vs. Indexing

## Where

You may not send a completed printout of this form to the SEC to satisfy a filing obligation. You can only satisfy an SEC filing obligation by submitting the information required by this form to the SEC in electronic format online at <https://www.edgarfiling.sec.gov>.

OMB APPROVAL	
OMB Number:	3235-0578
Expires:	March 31, 2019
Estimated average burden hours per response:	10.5

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number \_\_\_\_\_

\_\_\_\_\_  
(Exact name of registrant as specified in charter)

\_\_\_\_\_  
(Address of principal executive offices) (Zip code) \_\_\_\_\_

\_\_\_\_\_  
(Name and address of agent for service)

Registrant's telephone number, including area code: \_\_\_\_\_

Date of fiscal year end: \_\_\_\_\_

Date of reporting period: \_\_\_\_\_

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q

## Form N-Q is...

“...used by management investment companies ...to file semi-annually ....and the Commission will make this public.”

**E. Definitions.**

Unless the context clearly indicates the contrary, terms used in this Form N-Q have meanings as defined in the Act and the rules and regulations thereunder. Unless otherwise indicated, all references in the form to statutory sections are to rules, not sections of the Act and the rules and regulations thereunder.

**F. Signature and Filing of Report.**

...filing (see Item 201 of Reg. of Regulation S-T (17 CFR 232.201 of Reg. S-T), eight complete copies of the report shall be filed with the Commission. At least one complete copy of the report shall be filed with each exchange on which any

2. (a) The report must be signed by the registrant, and on behalf of the registrant by its principal executive and principal financial officers.

...may permit him or her to sign the report. Attention is directed to Rule 12b-11 under the Exchange Act (17 CFR 240.12b-11) and Rule 10b-11 under the Act (17 CFR 270.10b-11) concerning manual signatures and signatures pursuant to powers of attorney.



# Cost of Debt – YTM vs. Indexing

## When

Required to file N-Q Semi-Annually

Most post holdings quarterly

Some post monthly

This study of a new source of cost of debt is an ongoing concern.

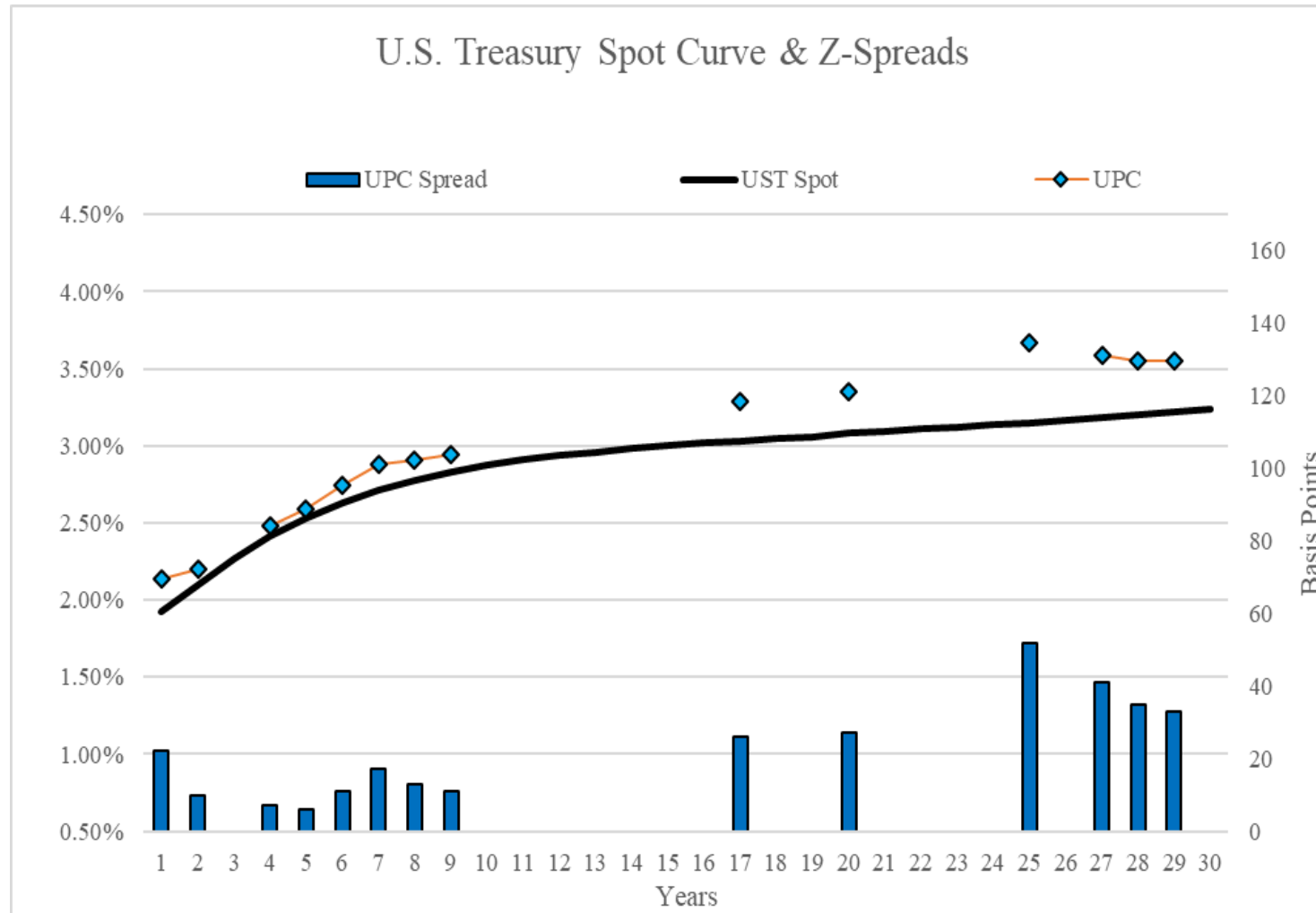
# Cost of Debt – YTM vs. Indexing

## What

		Settlement Date	Redemption Price			
		1/4/2018	\$100			
Issue	Coupon	Maturity	Face Amount	Market Value	Market Price	YTM
Canadian National Railway Co.	6.38%	11/15/2037	\$1,110,000	\$1,551,503	\$139.78	3.56%
CSX Corp.	6.22%	4/30/2040	\$1,285,000	\$1,695,930	\$131.98	4.03%
Burlington Northern Santa Fe LLC	5.75%	5/1/2040	\$1,332,000	\$1,734,038	\$130.18	3.74%
Burlington Northern Santa Fe LLC	5.05%	3/1/2041	\$979,000	\$1,174,242	\$119.94	3.75%
CSX Corp.	5.50%	4/15/2041	\$956,000	\$1,171,339	\$122.53	4.00%
Burlington Northern Santa Fe LLC	5.40%	6/1/2041	\$1,023,000	\$1,278,341	\$124.96	3.78%
Burlington Northern Santa Fe LLC	4.95%	9/15/2041	\$313,000	\$371,991	\$118.85	3.74%
Union Pacific Corp.	4.75%	9/15/2041	\$100,000	\$115,551	\$115.55	3.75%
Norfolk Southern Corp.	4.84%	10/1/2041	\$1,241,000	\$1,438,232	\$115.89	3.81%
Canadian Pacific Railway Co.	5.75%	1/15/2042	\$315,000	\$401,105	\$127.33	3.97%
Burlington Northern Santa Fe LLC	4.40%	3/15/2042	\$1,578,000	\$1,768,891	\$112.10	3.64%
CSX Corp.	4.75%	5/30/2042	\$1,015,000	\$1,137,450	\$112.06	3.97%
Union Pacific Corp.	4.30%	6/15/2042	\$556,000	\$611,900	\$110.05	3.67%
Burlington Northern Santa Fe LLC	4.38%	9/1/2042	\$1,309,000	\$1,463,946	\$111.84	3.64%
Norfolk Southern Corp.	3.95%	10/1/2042	\$980,000	\$1,004,480	\$102.50	3.79%
CSX Corp.	4.40%	3/1/2043	\$500,000	\$537,880	\$107.58	3.92%
Burlington Northern Santa Fe LLC	4.45%	3/15/2043	\$2,976,000	\$3,358,981	\$112.87	3.66%
Union Pacific Corp.	4.25%	4/15/2043	\$1,072,000	\$1,173,218	\$109.44	3.67%
Kansas City Southern	4.30%	5/15/2043	\$920,000	\$954,252	\$103.72	4.06%
Burlington Northern Santa Fe LLC	5.15%	9/1/2043	\$1,149,000	\$1,409,697	\$122.69	3.76%
Canadian National Railway Co.	4.50%	11/7/2043	\$200,000	\$227,054	\$113.53	3.68%
Union Pacific Corp.	4.82%	2/1/2044	\$625,000	\$742,344	\$118.78	3.69%
CSX Corp.	4.10%	3/15/2044	\$2,112,000	\$2,197,409	\$104.04	3.85%
GATX Corp.	5.20%	3/15/2044	\$340,000	\$390,538	\$114.86	4.25%

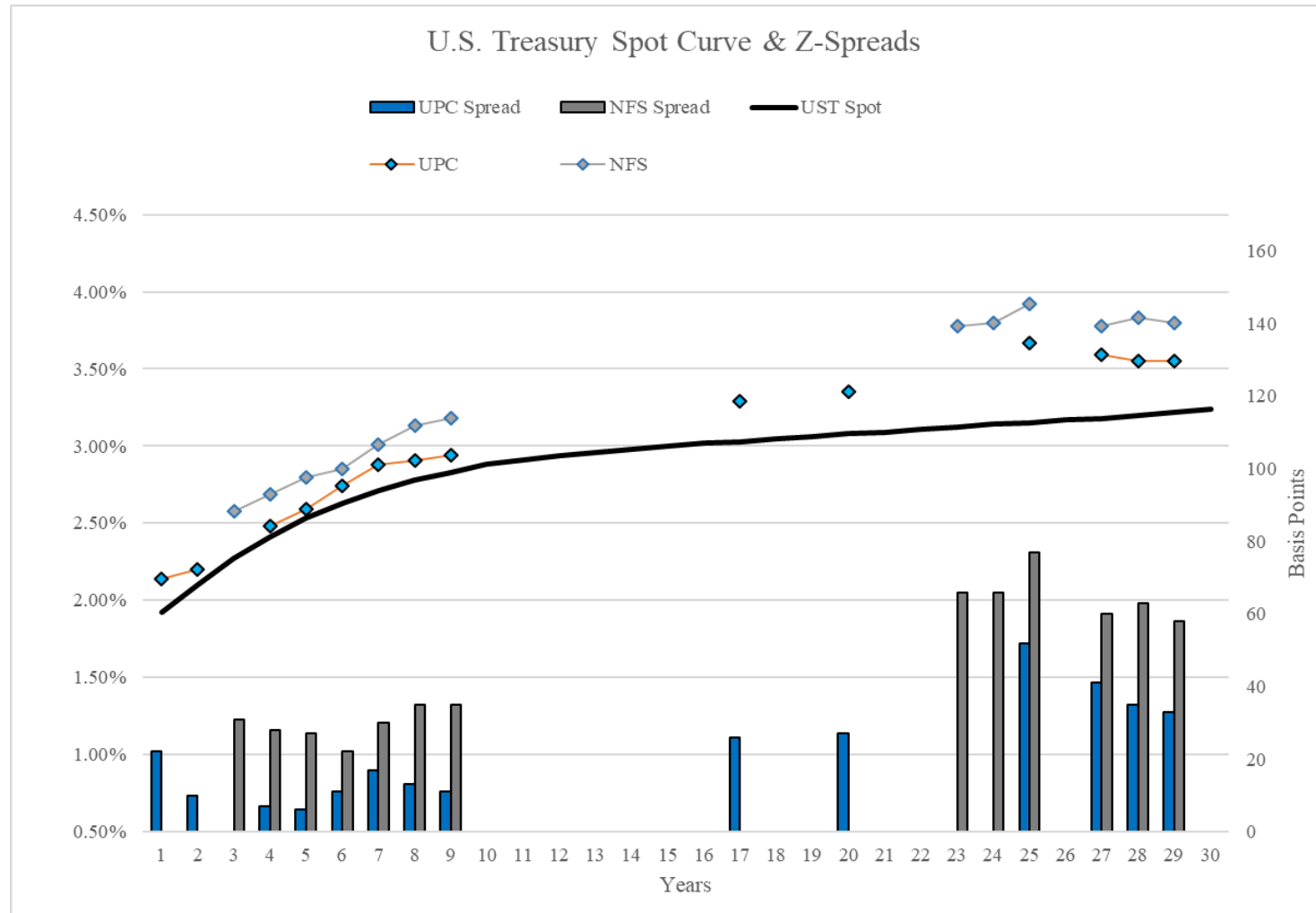
# Cost of Debt – YTM vs. Indexing

What



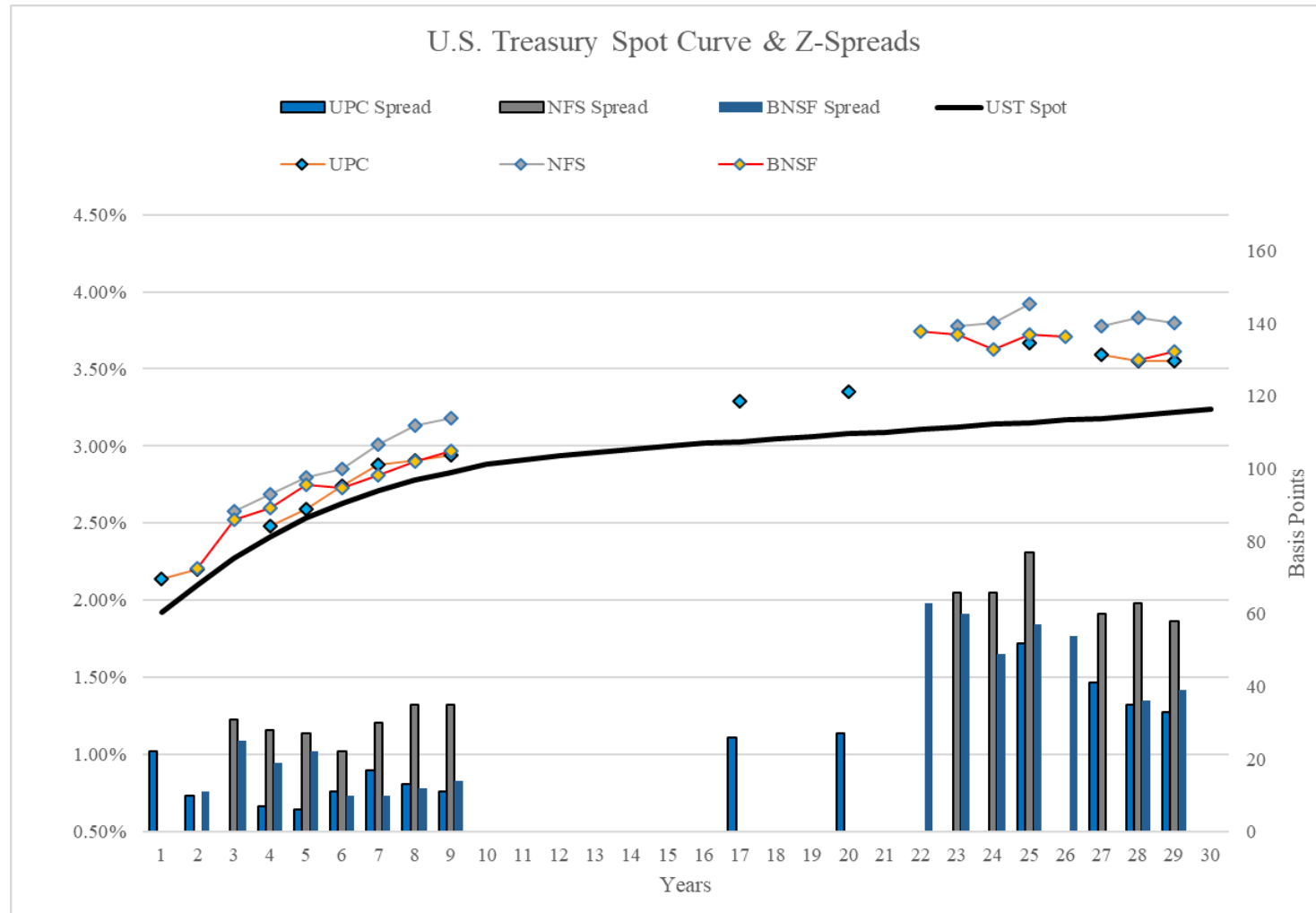
# Cost of Debt – YTM vs. Indexing

What



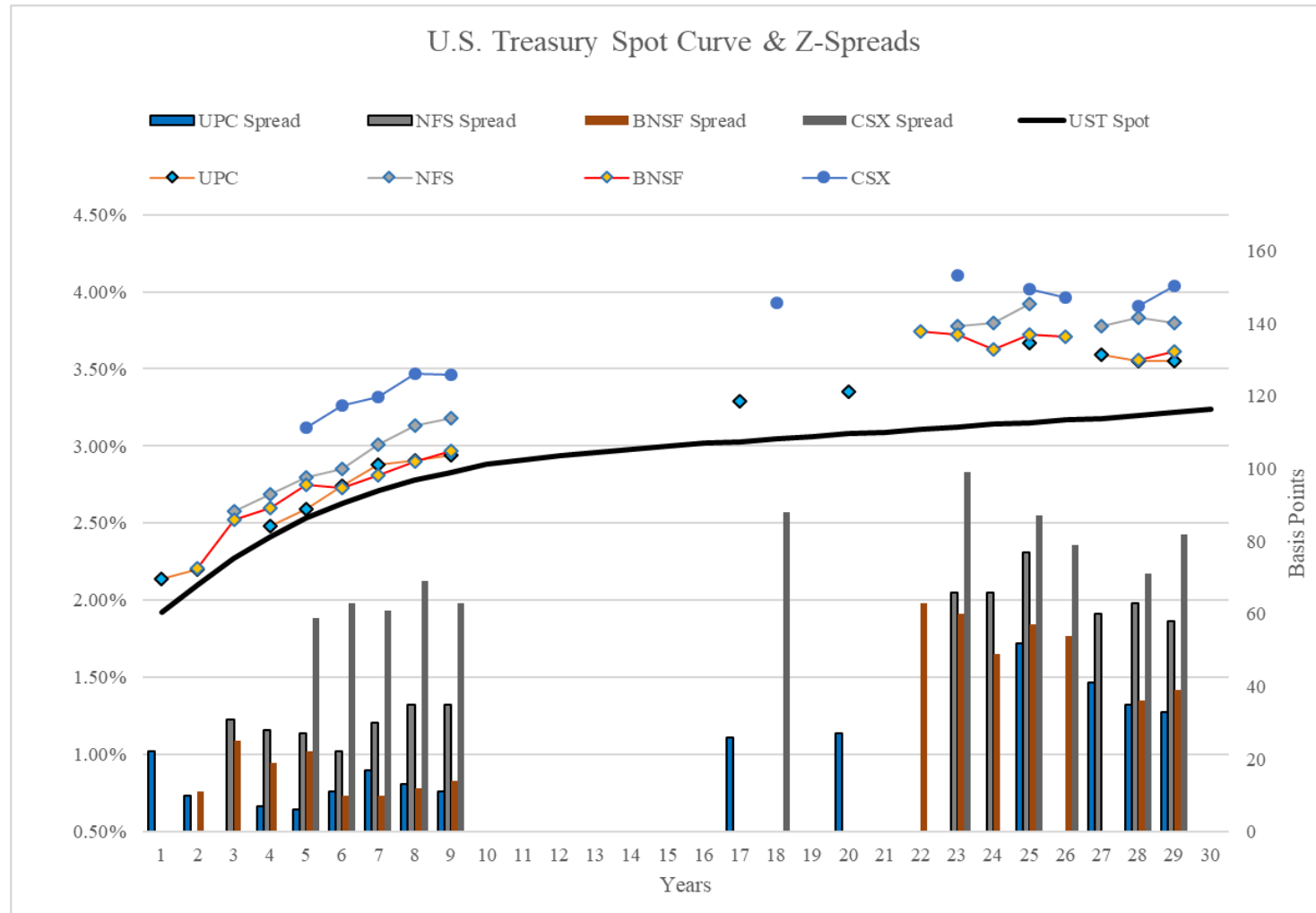
# Cost of Debt – YTM vs. Indexing

What



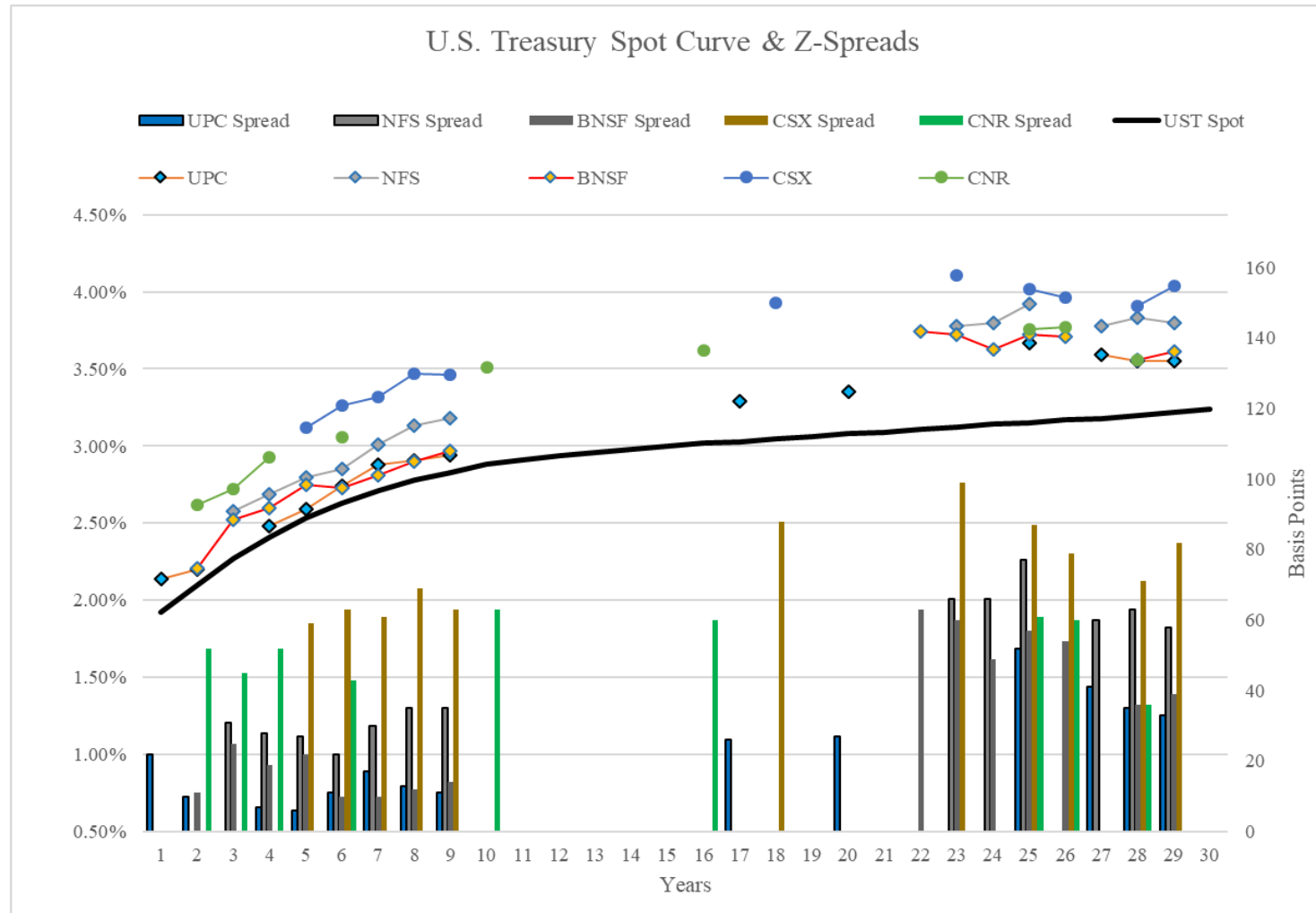
# Cost of Debt – YTM vs. Indexing

What



# Cost of Debt – YTM vs. Indexing

What



# Cost of Debt – YTM vs. Indexing

Who

	Investment Company Name	Assets Under Management (In USD Billions)		Investment Company Name	Assets Under Management (In USD Billions)
1	Black Rock Funds	\$5,977.00	26	Franklin Templeton	\$750.40
2	Vanguard	\$4,500.00	27	Legg Mason	\$750.00
3	State Street Global Advisors	\$2,670.00	28	Insight Investors	\$727.50
4	Fidelity Investments	\$2,400.00	29	Principal Financial Group	\$655.50
5	JP Morgan	\$1,900.00	30	UBS	\$653.00
6	BNY Mellon (Dreyfus)	\$1,800.00	31	BNP Paribas	\$648.60
7	PIMCO	\$1,690.00	32	Dimensional Fund Advisers	\$548.00
8	Amundi Asset Mgmt	\$1,650.00	33	Alliance Bernstein	\$542.00
9	Prudential Investments	\$1,370.00	34	Wells Fargo Advantage Funds	\$496.00
10	American Funds Investments	\$1,300.00	35	Ameriprise Financial	\$484.00
11	Nomura Asset Management	\$1,100.00	36	MFS Investment Management	\$480.30
12	Northern Trust	\$1,100.00	37	Columbia Management	\$473.00
13	TD Ameritrade	\$1,100.00	38	AVIVA	\$420.00
14	Morgan Stanley	\$1,000.00	39	Eaton Vance Distributors	\$419.30
15	Wellington Management	\$1,000.00	40	BofA Merrill Lynch	\$418.00
16	TIAA	\$954.00	41	Aegon	\$417.50
17	T Rowe Price	\$948.00	42	Lafayette Investments	\$408.00
18	Sun Life Global Investments	\$934.00	43	The BlackStone Group	\$385.00
19	Invesco	\$917.50	44	Manulife	\$383.00
20	AXA	\$870.60	45	Aberdeen Asset Management	\$372.00
21	Deutsche Asset Management	\$840.00	46	Federated Investors	\$360.50
22	TransAmerica Funds	\$809.00	47	Julius Baer Securities	\$358.70
23	Goldman Sachs Asset Management	\$794.00	48	Janus Capital Group	\$331.00
24	Affiliated Managers Group (AMG)	\$772.10	49	SEI Investments	\$325.10
25	Credit Suisse	\$759.00	50	Charles Schwab	\$320.00

*Ranking data updated on November 20th, 2017. Data Source [Mutualfunddirectory.org](http://Mutualfunddirectory.org)*



# Cost of Debt – YTM vs. Indexing

Fabozzi, Frank J; Fixed Income Analysis; 2000; New Hope, Pennsylvania; ISBN: 1-883249-83-X

Fabozzi, Frank L; The Handbook of Fixed Income Securities 8<sup>th</sup> Edition via Capital Markets BUS 440 2015  
McGraw Hill ISBN-13:9781308250533



# Questions?

Paul Winghart

# Discussion

# Open Forum

- What trends have you been seeing in your industry and in the market?
- What are your expectations about your industry's cost of equity, cost of debt, capital structure, etc.? And why?
- What are your thoughts and suggestions on the selection of guideline companies?
- Are there any significant changes in your industry due to recent mergers and acquisitions? What does that mean for the market?
- Cost of Guideline Company Debt vs. Index
- What do you think the risk free rate was as of January 2, 2018?

# Discussion

# Thank you!

**State Assessed Property Section**

*sa.property@state.mn.us*

651-556-6091