



Idea for a Gross Operating Revenues Tax

Response to Written Feedback

In January 2024, the Minnesota Department of Revenue introduced a preliminary idea to remove utility, pipeline, and railroad operating property from property tax and replace it with a gross operating revenues tax. For the document and video summarizing our idea, please see our [website](#).

As part of this idea, the department collected feedback to help inform the first round of public meetings. We also held several meetings with individuals and organizations. We received feedback from over 60 individuals or organizations.

This document provides response to written feedback received before June 4, 2024. Revenue is collecting feedback on a rolling basis submitted to sa.property@state.mn.us. If you would like to meet with us to discuss this idea, please contact us.

Feedback is shared in no particular order and follows the following format:

- Header summarizing a theme of the feedback
- A quote from the feedback that capture the general sentiment
- Perspectives from Minnesota Revenue

Another document will be shared summarizing the public meetings held on May 28, 29, 30, and June 4. We will also share a document regarding the current system, which addresses some of the feedback we've received with questions or educational opportunities on the current system.

Revenue needs a more intentional public engagement approach

"We strongly feel that, as a stakeholder, we need and request to have a seat at the table as these discussions are taking place and have a voice when decisions with significant impact and consequences are being made."

We want participation from everyone that wants to participate. If you know of someone that may want to be involved, please forward them the information or send their contact information to sa.property@state.mn.us and we'll be sure they receive information from us.

We are committed to thoughtful dialogue around our idea. In the fall of 2024, we will have another round of public meetings. These public meetings will focus more on our idea and will be a space for interested parties to share feedback and ask questions.

After these public meetings, Revenue will take some time to reflect and make a decision in the Summer of 2025 on any potential future public engagement opportunities around the idea.

We are working to engage stakeholders to understand their needs, opinions, and wants from the current system and if we were to move toward an alternate system. We are viewing this as an iterative process with back-and-forth discussions. There could be a few different outcomes from this process. We may identify that the status quo meets everyone's needs. Based on your feedback and priorities, we could build and refine our proposed idea. Or we could collectively identify other ideas.

We need more information, including financial impact

"The Company cannot make an accurate determination of its view on the proposal until the underlying analysis data from the proposal document is provided..."

"The County requests further information to compare past assessment and taxation data as well as estimates for future comparisons between this new proposal and the existing system that is currently in place for all affected entities in our County. This data is necessary to provide proper feedback."

Many shared a request for additional summary information to understand the dollar impact of the idea. We developed [summary information](#) that provide a high-level overview based on hypothetical rate.

Because detailed income and expense data and financial forecast data is private/non-public data under [Minnesota Statutes, § 13.51](#), we will provide aggregate data and we will not provide a company-by-company analysis.

It is important to note that to provide summary information, the department used hypothetical rates in the calculation for the gross operating revenues tax. The department is not advocating for a rate, but selected hypothetical rates for this analysis to remain revenue neutral. The revenue neutral assumption is at the aggregate level. Given the complexities of the current system, there are still shifts within individual taxing jurisdictions and at the company level.

As we work through feedback and questions, it may result in changes to our idea.

The rates applied to companies highlighted some stark differences in current methodology. The larger companies tended to have a lower rate to equal the same amount of tax under the gross operating revenues tax calculation. To put another way, smaller companies have a larger portion of estimated market value compared to their gross operating revenues than larger companies.

In addition, tax rates applied to market value vary widely across the state, and under this idea, the tax would be distributed uniformly to each unique taxing area and then distributed to each local taxing jurisdiction within the unique taxing area at its share of the overall tax rate for the area.

The department is working on a three-year look-back of how those rates would have compared to actual taxes assessed for utility, pipeline, and railroad operating property. This analysis will come out later than the initial summary information.

We need to focus on the current system first

“We believe modifications to the current process aimed at creating less dispute, more transparency and equity is worth further discussion and we look forward to providing input in future conversations to work toward a more tenable solution.”

Based on the first round of feedback that we received, we focused the first round of public meetings on the current process. We did this for three reasons. Many of those providing feedback:

1. Indicated they wanted to be involved earlier in this process or that they wanted the process to slow down.
 - We welcome participation from all and will have a deliberative approach to discussions around this idea.
2. Expressed concern about not being able to comment on the idea without knowing the dollar impact of the idea to their organization.
 - We plan to provide summary information later in the summer and hold another round of public meetings in the fall. We developed [summary information](#) that provide a high-level overview based on hypothetical rate.
3. Highlighted the need to clarify aspects of the current system.
 - When evaluating this idea, it is important to understand how the current system works to help compare and contrast the two mechanisms.

The department held listening sessions in 2021 and 2022 on the current system, which is where this idea originated from, however we are open to continuing discussion regarding how to improve the current system so there is transparency and equity.

How are Railroad Buildings Assessed?

“There is a concern that the assessment of buildings will be ignored and whether or not there will be valuations on the land.”

Currently, the department assesses buildings used by the railroad company for its operations, but not its buildings used for general office functions such as payroll or human resources. This can cause confusion on who is assessing what. In some cases, the department assesses a portion of a building, and the county or local assessor also assesses a portion of a building.

The idea behind moving to railroad buildings to county/local assessment is to no longer determine who is assessing what. The county/local assessor would pick up all buildings owned by railroad companies, like other buildings in their jurisdiction.

Regulation and Retirements

“How does a retirement of a utility base load unit impact the amount of gross operating revenues tax?”

“What happens if one plant of a company closes?”

Specifically for the gas and electric utilities regulated by the Minnesota Public Utilities Commissioner, the companies are allowed an opportunity to earn a return on their “rate base”. Rate base is the assets the MPUC allows the companies the opportunity to earn a return on. The MPUC ensures assets included in rate base are just and reasonable to provide safe and reliable service. The utilities also recover their costs, which includes a return of their allowable assets in the form of depreciation and their operating and maintenance expenses. If a utility’s rate base goes down and all else is held equal (the company’s allowable rate of return stays the same and the forecasted sales on which the rates were set stays the same), the gross revenues would decrease. There are many moving pieces to regulation.

In the current system: 1. the department determines the market value of the company’s taxable operating assets in Minnesota (Minnesota Apportionable Value) and 2. the department spreads the MN Apportionable Value to each parcel with operating property based on the original cost of operating property at that location. If the company’s MN Apportionable Value remains the same, but the total original cost of operating property decreases at one facility, all other operating property receives a larger portion of the MN Apportionable Value, not just other base load units.

The rate applied to gross operating revenues under this idea does not change when a company closes a generation facility unless the company is in a different tiered rate.

Here is an example of a company that has a MN Apportionable Value (taxable value of its operating property in Minnesota) of \$750,000. The value was determined by the department. The company’s original cost of its operating property in Minnesota is \$1,300,000. The company self-reported its original cost by parcel. The apportionment factor is 0.57692, calculated as \$750,000 / \$1,300,000. The estimated market value assigned (apportioned) to each parcel is equal to the parcel’s original cost of property times the apportionment factor:

Company's MN Apportionable Value	\$750,000	[A] Determined by the department
Company's Original Cost of Taxable Operating Property	\$1,300,000	[B] Reported by company
Apportionment Factor	0.57692	[A / B] = [C]

Parcel	Property Type Description	Original Cost	Estimated Market Value
		[D]	[D] x [C]
Parcel A	Machinery	\$500,000	\$288,462
Parcel C	Structure	\$25,000	\$14,423

Parcel D	Transmission Lines	\$400,000	\$230,769
Parcel B	Distribution Lines	\$125,000	\$72,115
Parcel E	Distribution Lines	\$125,000	\$72,115
Parcel F	Distribution Lines	\$125,000	\$72,115
Total		\$1,300,000	\$750,000

If this company retired its machinery and structure property reported on parcels A and C, but still had a Minnesota Apportionable Value of \$750,000, all other parcels would have a higher estimated market value. The new apportionment factor would be 0.96774. The original cost of property is reduced from \$1,300,000 to \$775,000 when \$500,000 from Parcel A and \$25,000 from Parcel C are removed. \$750,000 divided by \$775,000 = 0.96774. The estimated market value at each parcel is equal to the original cost at that parcel times 0.96774:

Company's MN Apportionable Value	\$750,000	[A] Determined by the department
Company's Original Cost of Taxable Operating Property	\$775,000	[B] Reported by company
Apportionment Factor	0.96774	[A / B] = [C]

Parcel	Property Type Description	Original Cost	Estimated Market Value
		[D]	[D] x [C]
Parcel A	Machinery	\$0	\$0
Parcel C	Structure	\$0	\$0
Parcel D	Transmission Lines	\$400,000	\$387,097
Parcel B	Distribution Lines	\$125,000	\$120,968
Parcel E	Distribution Lines	\$125,000	\$120,968
Parcel F	Distribution Lines	\$125,000	\$120,968
Total		\$775,000	\$750,000

The above example is how the current system works. Replacing the MN Apportionable Value with the tax from a gross operating revenues tax will yield the same result as far as apportionment. However, under the current system, the tax rates applied vary by location.

Transmission Lines and Distribution Lines

“The proposal does not address the loss of developable land used for transmission lines or railways that are not factored into a GOR tax calculation.”

Electric transmission lines and electric distribution lines would move from property taxes to part of the gross operating revenues tax, receiving a portion of the gross operating revenues tax similar in manner to how they currently receive a portion of the unit value.

Land Used for Operations

“The proposal does not address the loss of developable land used for transmission lines or railways that are not factored into a GOR tax calculation.”

Land used for railroad operating property, under this idea, would move from state assessment to part of the gross operating revenues tax.

Land of a utility or pipeline company will remain locally assessed as it is currently.

Inflation

“Inflation will naturally be reflected in the revenues, ... is generally opposed to tying the tax rate to the CPI [Consumer Price Index] which will have a duplicitous effect.”

From the feedback, gross operating revenues will tend to trend with inflation, rendering a separate adjustment unnecessary.

State General Tax

“Is the state going to get some share of this tax revenue?”

Currently, the state general tax is a tax on certain commercial and residential properties that is collected by the counties and remitted to the state.

If this idea were to move forward, legislature would set the rates and determine the impact on the state general fund. The department is not advocating for a rate.

Land Held in Trust

“Will other units like tribal government get some share of this tax revenue?”

Property located on land held in trust by the federal government for the benefit of tribal nations is exempt from property tax. We could apportion the tax to those properties and the tribal government could choose what to do

with that information, but the other local governments would not collect based on the apportionment to property located on trust land.

Solar and Wind Energy Production Taxes

“How does this impact wind and solar? Taxes?”

This idea would not affect or change [solar](#) or [wind](#) energy production taxes.

There has been significant growth in solar and wind systems in Minnesota. Minnesota reached the goal of 25% of energy generation from renewable sources in 2018 (seven years ahead of the statutory requirement of 2025).

All real and personal property of a wind energy conversion systems is exempt from property tax under [Minnesota Statutes, section 272.02](#), subdivision 22, except land, which remains taxable. Wind energy generating systems are subject to the Wind Energy Production Tax. The production tax is tiered based on the size of the system. The tax rate ranges from \$0.12 per megawatt hour of production to \$1.2 per megawatt hour of production. For taxes payable in 2023, we assessed over \$16.8 million in Wind Energy Production Tax, across 28 counties. The tax revenues are split between the county (80%) and city or township (20%) where the systems are located.

All personal property of solar energy generating systems are exempt from property tax under [Minnesota Statutes, section 272.02](#), subdivision 24. Solar energy generating systems are instead subject to the Solar Energy Production Tax, if they are of a certain size, with tax revenue split between the county (80%) and city or township (20%) where the system is located. The first year of the Solar Energy Production Tax, only one company was required to file and pay the tax. By the 2023 tax year, over 200 companies were required to file and pay the Solar Energy Production Tax. The total tax assessed payable in 2023 was over \$1.9 million. The tax was assessed across 41 counties.

Stability

“With response to stability – how was it determined that Gross Operating Revenues are a more predictable basis of calculation than property tax than assessed market value?”

We view the gross operating revenues tax as providing stability to local governments, by limiting refund situations from litigation, reducing market value decreases after budgeting decisions from administrative appeal settlements, and reducing the number of outputs in the tax calculation.

Electric Generation Transition Aid

“The new formula for Electric Generation Transition Aid should apply only to generating units that are retired or decommissioned after adoption of any change to the current system.”

The intention within this idea is to keep the current Electric Generation Transition Aid, as created under [Minnesota Statutes, §477A.24](#) for retirements up through any legislation around this idea. If this idea moves forward, it could provide an aid for retirements, similar to the existing Electric Generation Transition Aid, but would not repeal or remove aid already paid and established under M.S. 477A.24.

Carbon Free Mandates

“What does the long-term modeling look like assuming the MN 2040 Standard which reflects a carbon free future (and post nuclear future) with generating assets consisting solely of wind, solar, and storage/batteries (which are exempted under this idea)?”

[Wind](#) and [solar](#) energy generating systems are subject to a production tax. [Battery energy storage systems](#) are subject to property tax under the current system, under certain conditions.

There is a continuous state, global, and social drive toward a clean energy and reducing carbon emissions. As noted, the Minnesota legislature enacted a law establishing a Minnesota carbon-free electricity standard by 2040. The Minnesota Department of Commerce explains more in their [news release](#).

We believe the current system will be impacted by continued retirement of coal facilities and increases in solar and wind systems. While the state mandate will impact the current system, it would also similarly impact any replacement-type methodology.

The Department of Revenue does not have control or influence over the global shift toward renewable energy.

Rate Regulated Companies

“... including investor owned utilities which are guaranteed a rate of return by the Public Utilities Commissioner...”

The Minnesota Public Utilities Commission does not guarantee a rate of return for investor-owned utilities. Rather, the Commission sets rates at a level that permits stockholders an opportunity to earn a fair and reasonable return on their investment and permits the utility continue to attract investment.

Reviewing Process and Rules for Valuing Utility and Pipeline Operating Property

“It has come to my attention that the listening sessions with stakeholders in both Winter 2021 and Spring 2022 were held without county and city representation.”

A 2021 law directed the Department of Revenue to review the process and rules for valuations of utility and pipeline operating property. As part of this review, the department held a number of meetings with stakeholders. The Office of Collaboration and Dispute Resolution (part of the MN Department of Administration) facilitated these meetings.

The first phase of listening sessions focused on stakeholders’ values, principles, and priorities. About 100 individuals participated in at least one listening sessions, including 47 stakeholders representing local governments, local government associations, and the Legislature. The second phase of workgroup discussions reviewed the administrative processes and methodology. The workgroup discussions included representatives from Association of MN Counties, League of Minnesota Cities, Minnesota Association of County Officers, and other local government stakeholders. [You can read more about the stakeholder engagement in this report.](#)

Publicly Available Data

“If certain data is private, but available publicly elsewhere, many local governments may need additional insight on how it might be accessed.”

Several companies are required to file federal and state financial forms that are publicly available. The below table identifies the regulatory agency and form. Following the table are instructions for accessing the form from the regulatory agency.


Market Segment	Regulatory Agency and Form	Generally
Electric Utilities	FERC Form 1 – Annual Rpt. For Major Electric Utilities, Licensees & Others	Investor-owned electric utilities
Gas Transmission Pipeline	FERC Form 2 – Annual Report of Major Natural Gas Companies	Pipelines, crossing state lines, delivering natural gas to natural gas utilities.
Oil Pipelines	FERC Form 6 – Annual Report of Oil Pipeline Companies	Common carrier oil pipelines
All	SEC Form 10-K	Publicly traded companies (generally, the parent to the companies that are valued by the department)
Cooperatives	Rural Electric Service, Financial and Operating Report	For electric cooperatives borrowing from the United States Department of Agriculture. Not public.
Company webpages	Some companies post their annual report on their websites	
Electric and Gas Distribution	Minnesota Public Utilities Commission, Jurisdictional Annual Report	Minnesota companies regulated by the MPUC

Federal Energy Regulatory Commission (FERC)

For companies that file with the Federal Energy Regulatory Commission, you can find financial statements on the [FERC's eLibrary](#). The eLibrary includes Search Tips at the top right.

Select the form you under the Report/Form option in the Select Options drop-down (FERC Forms 1, 2 and 6 as listed in the table above).

Search eLibrary

What's New in eLibrary  [Search Tips](#)

* Indicates a required field.

☒ General Search
 ☐ Docket Search
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Search on a Reference Number (Docket, Accession, Ferc Cite, etc.)

Docket (e.g. ER11 , ER11-4046 , ER11-4040-0201)

Enter Docket Number

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Sub-Dockets (eg. 001, 002)

Select Date Range (required)

Filed Date

Past 60 Days

*From 06/17/2024

*To 08/16/2024

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Keyword Search

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Industry Sector

Security Level

What are Document Class Types?
 Select options

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Role

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Organization

Search

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Securities & Exchange Commission (SEC)

The SEC's [EDGAR – Search and Access tool](#) allows you to search for companies by company name, ticker symbol, and many other search options. It may be easiest if you search by Company Name or ticker symbol of the publicly traded company. You can then view annual financial statements in the 10-K report.

Minnesota Public Utilities Commission (PUC)




The PUC and Minnesota Department of Commerce have an [online eDocket search tool](#).

The Gas Jurisdictional Annual Report (JAR) and Electric JAR are filed under the docket number starting with the year, and ending in 4. For example, if you want the JAR for the financials ending 12/31/2022, the report is filed in 2023. The docket number you want to search is 23-4.

You can also add the Company name in the Keywords search at the same time as entering in the docket number to narrow down your search.

Basic Search

From here you can search the documents filed in utility cases that are stored in the eDockets Search System. You may search using a combination of the following criteria:

<input type="button" value="Search"/> <input type="button" value="Clear"/>	
<div><div><div>Docket Number: -Select- - <input type="text"/></div><div>Year: <input type="text"/> Number: <input type="text"/></div></div><div>Docket Lookup Examples: 05-101, 04-820.05</div></div>	
Document Type: -Select-	Docket Type: -Select-
Submission Number: <input type="text"/>	Document ID: <input type="text"/>
On Behalf Of: <input type="text"/>	
<input type="radio"/> Received Date: <input type="text"/>  Format: mm/dd/yyyy	
<input type="radio"/> Received Date Range: From Date: <input type="text"/>  To Date: <input type="text"/>  Format: mm/dd/yyyy	
<input type="button" value="Search"/> <input type="button" value="Clear"/>	

Advanced Keyword Search

Enter Keywords to search the document repository.

Keywords: <input type="text"/>	Examples:	
Full text search help	* Search: e.g Wo *d	Will provide a list of documents containing wood, world or would.
	"?" Search: e.g ?an	This search will list documents containing ran or can. But, not span!
<input type="button" value="Search"/> <input type="button" value="Clear"/>	"AND" Search: e.g Jack AND Jill	Will provide a list of documents containing both "Jack" and "Jill".
	"OR" Search: e.g Jack OR Jill	Will provide a list of documents containing either "Jack" or "Jill".

To find more documents for specific dockets, including rate cases and automatic fuel adjustments, select the Docket Lookup and begin typing the company name until the company name populates. You can narrow down your search by docket type or you can search for all dockets related to the company.

Surface Transportation Board

[Annual Report Financial Data](#), reported to the Surface Transportation Board by Class I Railroads in an R-1 form. The financial data is categorized by year and by company.

Energy Information Administration

The [Energy Information Administration](#) provides an [Annual Energy Outlook](#). As stated on its website, "EIA's National Energy Modeling System (NEMS), which we use to produce our Annual Energy Outlook (AEO), requires substantial updates to better model hydrogen, carbon capture, and other emerging technologies. To facilitate these model enhancements, we will not publish an AEO in 2024." The EIA provides forecasts for several energy-related topics in its Annual Energy Outlook 2023 that may provide some helpful data.