



Gross Operating Revenues Tax Idea

Public Meetings, Round 1

We held the first round of public meetings about the Idea for a Gross Operating Revenues Tax on May 28, May 29, May 30, and June 4, 2024. This document provides a high-level summary of those public meetings.

The meetings were designed to be repetitive and offer a chance for attendees to fit at least one meeting into their schedules. Each meeting began with a welcome, an overview of the current process, steps for productive group breakouts, and group breakouts (in one meeting, we held the breakout as one large group). If there was time, we came back together to provide highlights of the group breakouts to all attendees.

By its nature, each public meeting provided different insights given the differing attendees.

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 are taking slower steps during this process.
2. Expressed concern about not being able to comment on the idea without knowing the dollar impact of the idea to their organization.
 - We provided summary information earlier this summer and have plans to hold another round of public meetings in the fall.
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 in order to help compare and contrast the two mechanisms.

The second round of public meetings will be held in Fall 2024 and focus on the idea.

Attendees

Every meeting was attended by the Property Tax Division Director, Assistant Direct, Department of Revenue's Public Engagement Director, State Assessed Property Section, Department of Revenue staff attorneys, and several other division employees assisting in facilitation and note-taking.

People from a wide variety of organizations attended the public meetings. Some of the organizations included companies that are currently assessed by the department, local jurisdictions, and attorneys.

Public Meeting	Location	Approximate Attendees
5/28/2024	Virtual	113
5/29/2024	Aitkin County Government Center, Aitkin, MN	13
5/30/2024	Department of Revenue, Stassen Building, St. Paul, MN	13
6/4/2024	Virtual	52

The number of attendees is approximate because some people called in to the Teams meeting and also logged in. Some people attended more than one meeting.

Meeting Summary

This section summarizes the discussion/comments made by participants during the public meetings.

Current System

During the public meetings, we talked about the current system. Some found it important for the public to understand the current system. There were differing opinions we heard from participants; they said the current system is stable, not stable, difficult to understand, not transparent, transparent if you understand the system, improvements to the current system could improve stability. Others said the current system was unfair to companies with new infrastructure and others said local jurisdictions do not want to lose the tax base.

The department's presentation on the current system included a common disclaimer for Department presentations, that the presentation was meant to accompany an oral presentation and should not be used as a standalone document and to consult a tax professional with questions, which a few participants found offensive.

Litigation under the current system is difficult for all parties involved in the litigation and is a concern of many of the participants because it causes instability. Some said litigation is expensive and time consuming but helped make the current system better. Some participants indicated the updated legislation to allow for administrative appeals process, including binding settlement agreements, has reduced litigation. Companies do not like the "black box" settlements of the administrative appeals settlements. Counties are concerned their interests are not considered during the administrative appeals process and transparency around this process would be helpful. Counties would like the department to do a better job "holding the line" during appeals, and when the department makes administrative appeal settlements, transparency is lost. Companies noted even if the department's initial valuation was more closely aligned with the previous year's settlement, the companies would likely still appeal the valuation. Valuations fluctuate year to year with no reason, valuations are stable. The timelines established in the current system does not work for participants. Companies have a difficult time making filing deadlines and making budgeting decisions given the instability of the valuations and local governments do not receive information in time to consider before setting budgets.

Valuation process is hard to predict because of the economic factors, including the capitalization rate, that vary from year to year. Participants suggested having a less formulaic and more subjective approach to the capitalization rate, as well as more review before publishing. Others stated the department's valuations should be in the middle of other states' valuations. Some said that other states use unitary valuation, and moving to a different system would not be consistent. Some suggested placing a cap on estimated market values increases and decreases.

Railroad companies see a macro desire to increase passenger rail, which will be costly to freight rail companies and there does not appear to be an aid to help railroads transition to more passenger rail. Short line railroads are different from Class I railroads.

Timing of the current process was discussed in great detail with several suggesting a lag year for the current system in order to alleviate some of the deadline pressures. Others suggested this would be unfair to have an assessment year that is different for utility, pipeline, and railroad operating property compared to all other property within a jurisdiction, as market values change over time.

In some local jurisdictions, the revenue from utility, pipeline, and railroad operating property can make up a large portion (20%, 12-15%, 40%) of the local jurisdiction's budget and these jurisdictions are reliant on the owners of these properties to pay most of the tax. Participants suggested that legislature investigate revenue sharing for these counties, so they are not stuck in a financial conundrum when values decrease; look at utility property as a general good for the state.

Some participants discussed the legislatively mandated review of the framework used for valuing utility and pipeline operating property. The framework for valuing railroad operating property was not included as part of that review.

We heard participants say the timing of this idea is not good for local jurisdictions, especially those about to lose tax base due to closing generation facilities. Others said local governments do not understand what this idea means or have the capacity to spend time analyzing this idea.

Administering the current power line credit is difficult, but there are some concerned about removing the power line credit.

Participants mentioned the difficulty of county budgets when the interpretation for distribution line taxation (at countywide rather than local tax rates) changed.

Questions about a company's property records are not resolved timely and should not involve the county, suggested some participants.

Participants mentioned the department needs better accountability and communication regarding the timing of certified and corrected certified values to counties and issues with property records; others mentioned the department's communication was helpful.

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Regarding the idea itself, participants said gross operating revenues fluctuate with weather and are more volatile than the current system and would cause the tax burden to shift from utility, pipeline, and railroad companies to all other property owners. Some suggested net operating income should be used instead of gross operating revenues, and others suggested the opposite. Some suggested using an average of several years' income figures. Other explained rate-regulated revenues are determined, in part, based on expenses; if an expense is determined based on revenues, this creates a circular event.

Participants want more information about the idea itself, including impacts to aids and other property tax programs, specifically, fiscal disparities. Questions included, "who will set the rate, how will the rate be determined, will the rate change each year, how is exempt property factored into the idea?" Participants requested responses from the department to the feedback participants had submitted. Some mentioned county commissioners will not agree or disagree on the idea without knowing the financial impact.

Some additional feedback around the idea included changing the tax billing and collection from the counties to the department and revising the allocation factors. Companies want fair taxes. Change should be gradual.

Surrounding the process of engaging with stakeholders about this idea, participants mentioned the process of providing feedback is burdensome and they do not have enough staff to commit to these new challenges. Participants did not feel they were included early enough regarding this idea and did not feel part of the conversation.

Other Topics

During the public meetings, participants discussed a variety of topics.

Specific to communities that host nuclear energy generating facilities, those jurisdictions host facilities that make the energy for the majority of the state. Those jurisdictions would like to be compensated for the public good they host, and the risks they take from housing spent nuclear fuel in dry cask storage. Those communities would like to see an aid similar to the taconite aid.

Questions included, whose job is it to promote changes for energy transition, is the idea equitable compared to other commercial/industrial taxpayers, and why are we here? Overall, participants seemed to indicate they would like an easier system as long as it did not cause tax shifts.