State-Assessed Property

February 2019

## Property assessed by Department of Revenue

Law requires the commissioner of revenue to assess:

* Airline flight property
* Railroad operating property
* Pipeline operating property
* Utility operating property

*Operating property* means property directly associated with the activities of the organization. *Nonoperating property* includes all property other than operating property, such as vacant land or real property leased or rented to another person. Nonoperating property is assessed locally.

**Rule 8100**

This rule guides the assessment of pipeline and utility operating property. Rule 8100 outlines three major processes used in the assessment. The commissioner of revenue certifies the values to the counties for property tax purposes by August 1.

Valuation

A unit value for each company must be established by first valuing the entire system. Three approaches are used to estimate this value:

***Cost Approach***: Value is equal to the cost of the system plant less depreciation. Original cost as well as any improvements are accounted for in this calculation.

***Income Approach***: Value is estimated by capitalizing the net operating earnings of the company for the most recent three years. The earnings are weighted then divided by a capitalization rate to arrive at the value.

***Market Approach*** *(or other indicator of value)*: The market approach uses comparable sales to determine value. These sales may not exist, thus the commissioner has discretion to use or not use this or any other additional indicator of value.

The unit value of the company is equal to the total weighted values calculated using the methods listed above. The total weighting must equal 100 percent. The default weights are: cost approach 50 percent, income approach 50 percent, market approach 0 percent.

**Example**

Cost approach: $\$5,000,000 ×47.5\%=\$2,375,000$

Income approach: $\$4,800,000 ×47.5\%=\$2,280,000$

Market approach: $\$5,500,000 ×5\%=\$275,000$

Unit value: $\$2,375,000+\$2,280,000+\$275,000=\$4,930,000$

Allocation

After the unit value is established, the portion of the value which is attributable to Minnesota must be determined. This process is different, depending on whether the company is a pipeline, gas distribution, or electric company.

**Pipeline Example**

Minnesota Plant Cost: $\$13,500,000$

Total System Plant Cost: $\$39,300,000$

Minnesota Throughput (product that passes through pipeline): $8,940,000$

Total System Throughput: $27,900,000$

Total Percentage Allocated to Minnesota: $75\%\left(\frac{13,500,000}{39,300,000}\right)+25\%\left(\frac{8,940,000}{27,900,000}\right)=33.76\%$

Apportionment

After the unit value of the company has been allocated to Minnesota, the allocated amount is apportioned to the taxing districts (e.g. county, city/township, school district) in the state in which the company operates. The value is allocated by the cost of the company’s property in each taxing area.