



The Conundrum of Multi-Jurisdiction Property Valuation

Larry Walters, Commissioner
Utah State Tax Commission

National Conference of State Tax Judges

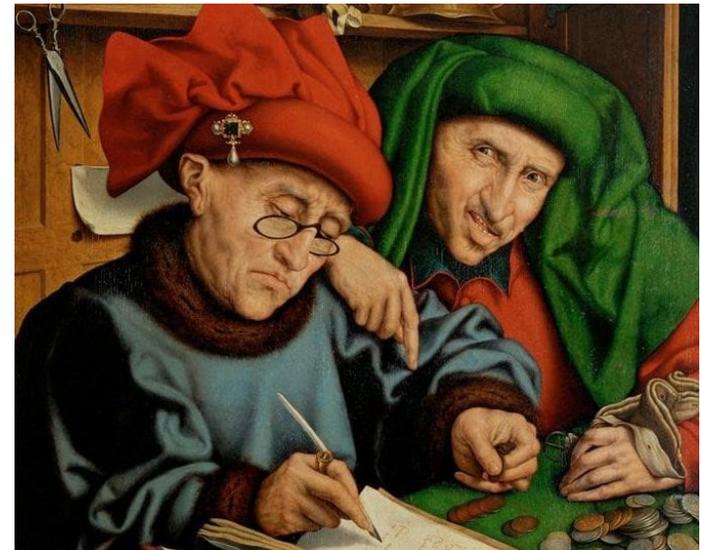
Boston, MA

October 31 – November 2, 2019

Disclaimer: This presentation does not represent the
views of the Utah State Tax Commission.

Outline: Part 1

- The essential property tax valuation questions
 - Who is the most likely willing buyer?
 - What are they buying?
 - On what price will buyer and seller agree?
 - What portion of the traded property value is taxable?
- Summation vs. unitary valuation
 - Residential property
 - A pipeline in Beaver County, UT
- Brief history of unitary valuation
 - Types of property
 - Variation across states



What is actually bought and sold
in the real estate market?

Older home, Salt Lake City



- “Zillow” price: \$533,675
- vs.
- Land value: \$118,000
 - 0.11 acres (4,791 sq ft)
 - RCNLD Bldg value: \$201,200
 - 1706 sq. ft. main level
 - 800 sq. ft. basement
 - Average condition
 - Built in 1909
 - Effective age 1990

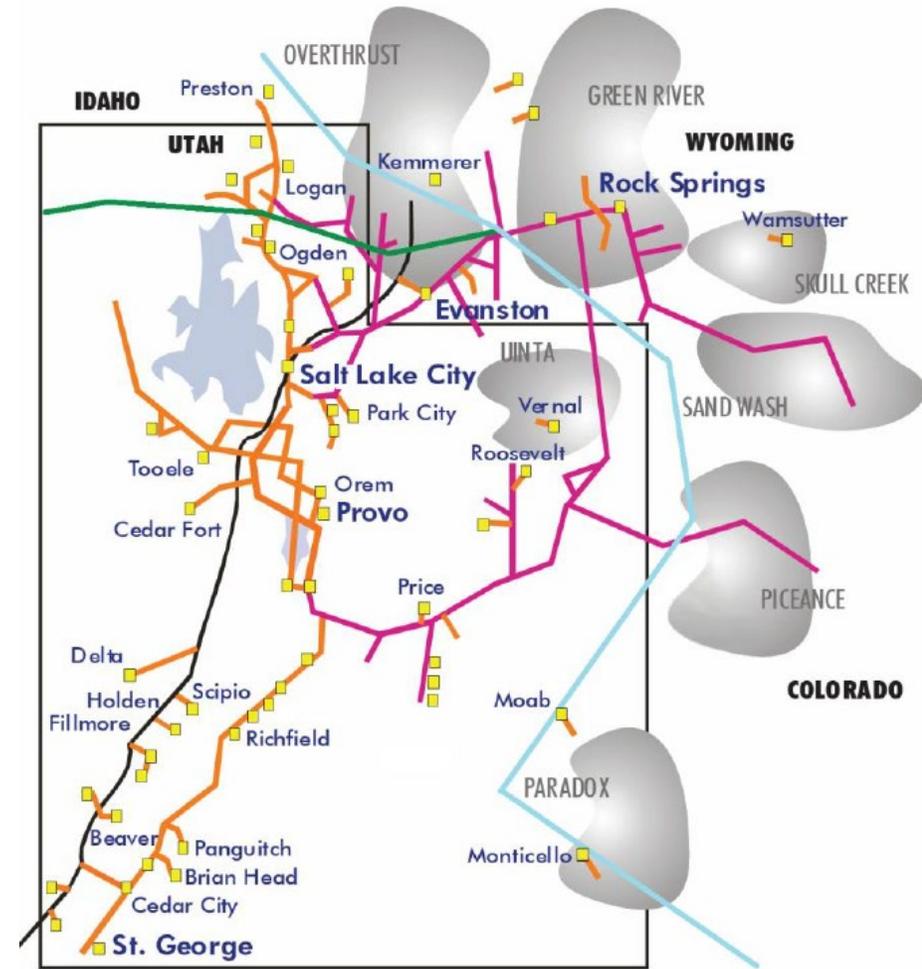
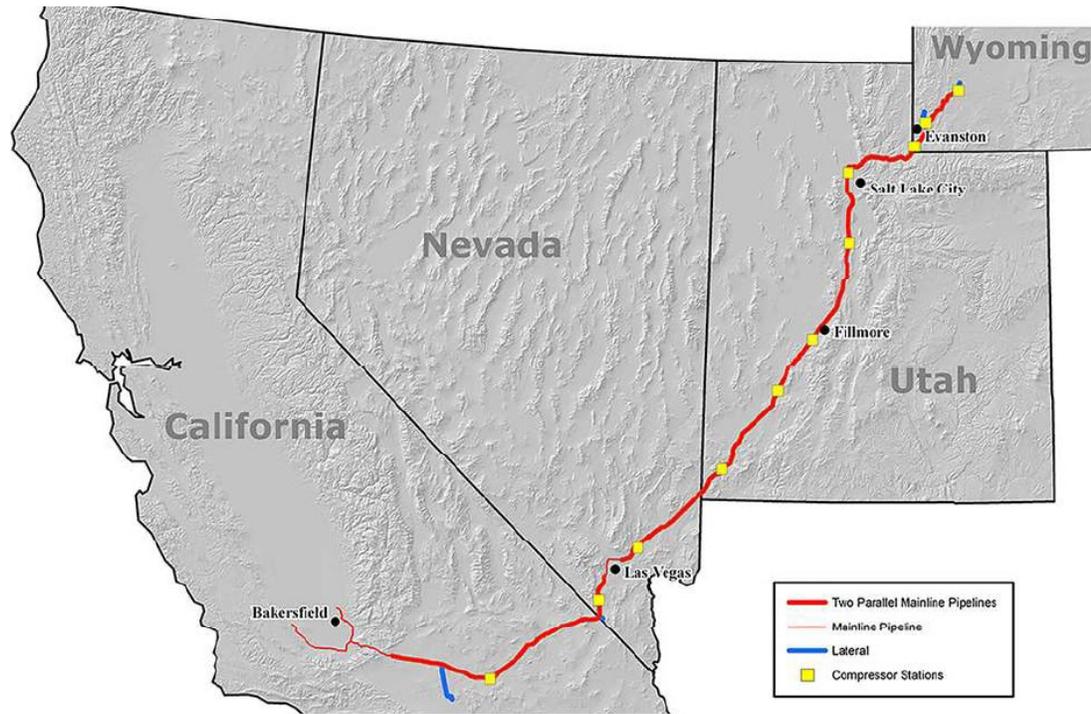
Beaver county, Utah



Beaver County, Utah

- Population
 - 6,580 (2018)
 - 6,629 (2010)
- Housing units
 - 3,046
 - Median value of owner-occupied housing: \$147,300
 - Average, all primary residences: \$168,433
- Land area
 - 2,590 square miles
 - Density: 2.6 persons per square mile
 - 90 miles (east to west)
 - 29 miles (north to south)
- Property tax base (\$millions)
 - **Total assessed value: \$1,753.9**
 - Primary residential: \$304.0
 - Other residential: \$55.8
 - Commercial: \$74.9
 - Agricultural: \$74.8
 - Vacant land: \$67.3
 - Personal property: \$406.1
 - **State assessed: \$771.0**
- State assessed property
 - 44% of total base

36" natural gas pipeline from WY to CA



The Pipeline in Beaver County

Pipeline miles by state

- Wyoming: 154
- Utah: 741
- Nevada: 276
- California: 548

• Gas pipeline in Beaver County

- About 40 miles
- 3.5% of total tax base

Pipeline construction



Pipeline Road



What is the market value of the 36” pipeline in Beaver County?

- Beaver County has:
 - No natural gas supplies
 - No processing, compression stations or other facilities
 - Very few customers
- Value of the pipeline to a “willing buyer” in isolation: Very close to \$0
- HCLD: About \$23 million
- RCNLD: ??
- Value as part of the pipeline unit: \$62 million

Unit vs. Summation approach to
value

National Association of Tax Administrators, 1954

- A unit appraisal is superior to a summation appraisal in this case not only because it produces a result that is closer to the true value of the property as a whole but because it produces that result by resort to more reliable and more readily available evidences of value than those that would be used for a summation appraisal. (Chapman et al. 1954, 14. Emphasis added)

(Very) Brief History of the Unit Approach

- First applied to railroads
 - “The law treats a railroad and all of its appurtenances as one entire thing.” *Applegate v. Ernst*, 66 Ky. 648, 650 (1868)
 - “A railroad is an entire thing and should be assessed as a whole. It would be almost as easy and as reasonable to divide a house or a locomotive into portions and assess each portion separately, as to divide a railroad into portions and assess each portion separately.” *Missouri River, Fort Scott & Gulf Railroad v. Morris*, 7 Kan. 210, 222–23 (Kan. 1871)



Application extended
to other industries

Telegraph lines (1896)

Express companies (1897)

Last century

- Electric utilities

- Telecommunications

- Pipeline

Capital-intensive firms with
assets in multiple jurisdictions



State Assessed Taxable Value as a Percentage of Total Locally Taxable Value, 1992

State	State Assessed Value as a Percentage of Total Locally Taxable Value
Wyoming	71.00
Alaska	42.40
Montana	30.10
Utah	24.00
Arizona	22.10
Ohio	20.70
South Carolina	18.00
New Mexico	17.40
Oklahoma	16.60
Kansas	16.30
Maryland	15.10
Louisiana	14.70
Georgia	14.60
Alabama	13.50
Mississippi	12.40

Source: US Census, 1994

Especially important in rural areas

Public Utility/Centrally Assessed Property as a Percentage of Total Taxable Value, 2011

State	Public Utility/Centrally Assessed Property as Percentage of Total Taxable Property Value	Maximum Local Ratio Within the State (%)	Percentage of Counties with 20% or More of Their Property Tax Base Centrally Assessed
California	1.80	15.60	0
Georgia	3.60	65.50	3.20
Kansas	11.40	84.30	35.20
Mississippi	11.20	45.30	20.70
Oregon	4.90	70.60	14.30
South Carolina (school districts)	7.20	51.20	8.20
Utah	10.90	83.40	34.50

Defining the unit

Defining the unit

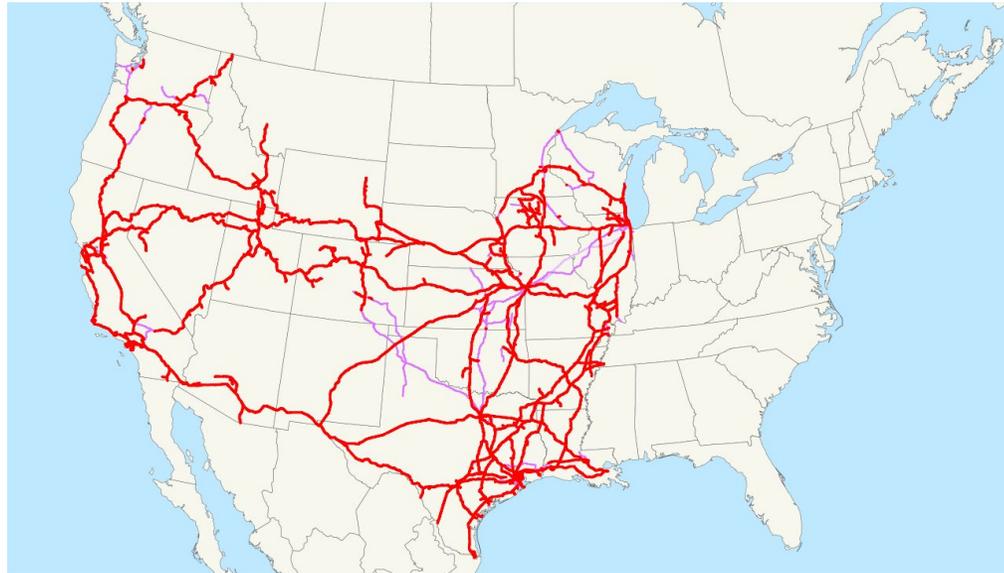
- Properties that operate across county and state boundaries and whose “value depends on the interrelation and operation of [all of the properties] as a unit.”

(ITT World Communications, Inc. v. San Francisco, 37 Cal.3d 859, 210 Cal. Rptr. 226, 693 P.2d 811 [1985]).

Defining what should be included

- Generally
 - Only operating properties necessary to conduct the unitary business, whether owned, leased, or otherwise exempt

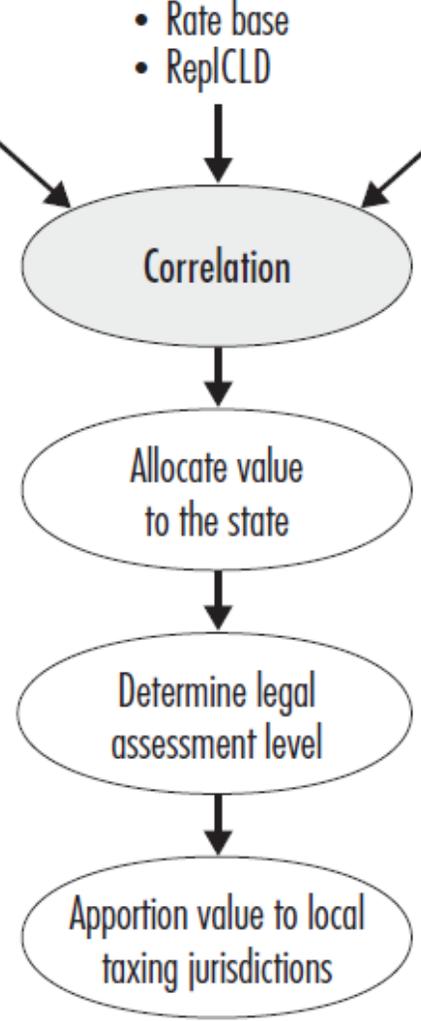
Unitary valuation summarized



- Income indicators**
- Perpetuity capitalization
 - Discounted cash flow

- Cost indicators**
- HCLD
 - ReproCLD
 - Rate base
 - ReplCLD

- Comparable sales indicators**
- Stock and debt
 - Direct capitalization





Part 2: Challenges and Issues

Outline: Part 2

- Intangible value
 - Assemblage value
 - Future expectations
- Obsolescence in cost approach
- Uniformity and equal treatment
 - Telecommunications
- Equity revisited



The challenge of intangible value

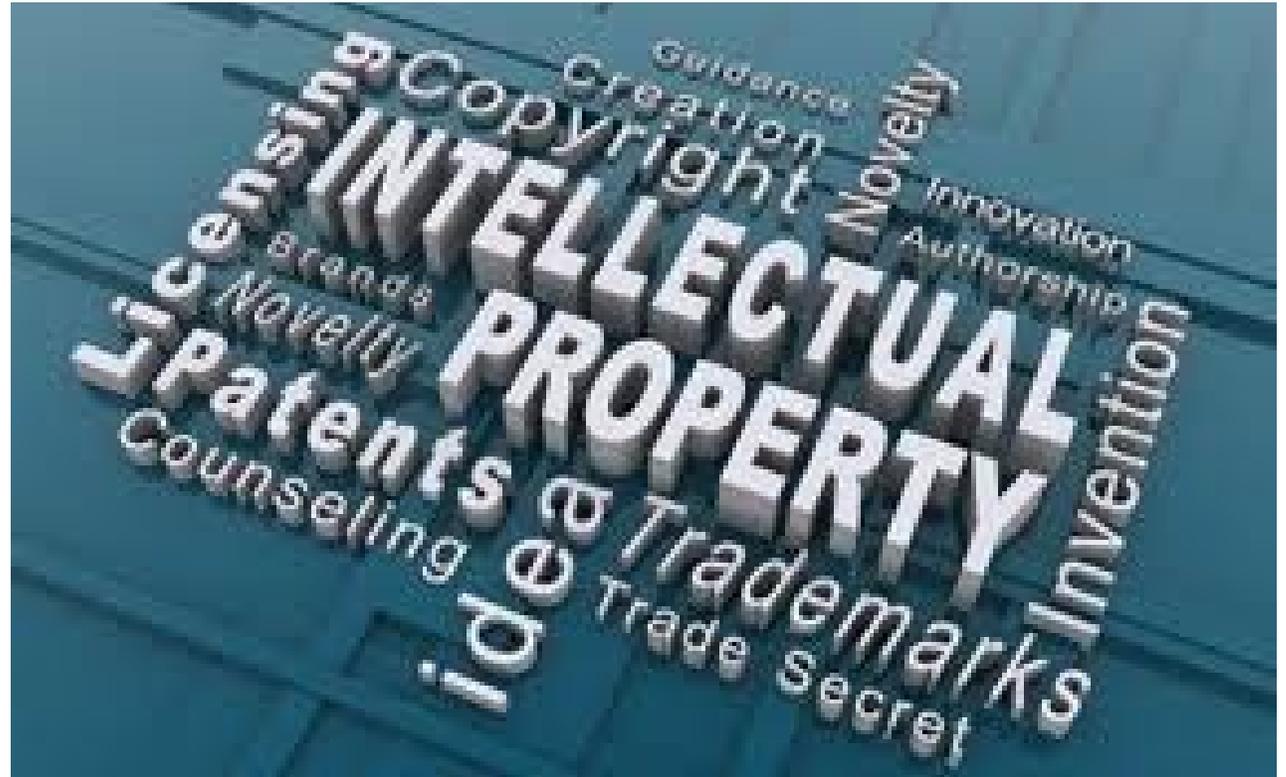


- A distinction must be noticed between the construction of a state law and the power of a state. If a statute, properly construed, contemplates only the taxation of horses and wagons, then those belonging to an express company can be taxed at no higher value than those belonging to a farmer. But, if the state comprehends all property in its scheme of taxation, then the goodwill of an organization and established industry must be recognized as a thing of value. (*Adams Express Co. v. Ohio State Auditor*, 166 U.S. 185, 221 17 S.Ct. 604 [1897])

Can tangible and intangible value be separated?

“One might as well try to value the life-blood of a horse, or his capacity to breathe, as try to place a value upon the visible part of a railroad property separate from its rights, franchises and privileges”

(Chicago and North Western R.R. Co. v. State, 108 N.W. 557, 573 [Wis. 1906])



Don't all properties have intangible aspects that affect market value?



IAAO 4-part test

A four-part test can be used to help determine the existence of an intangible asset:

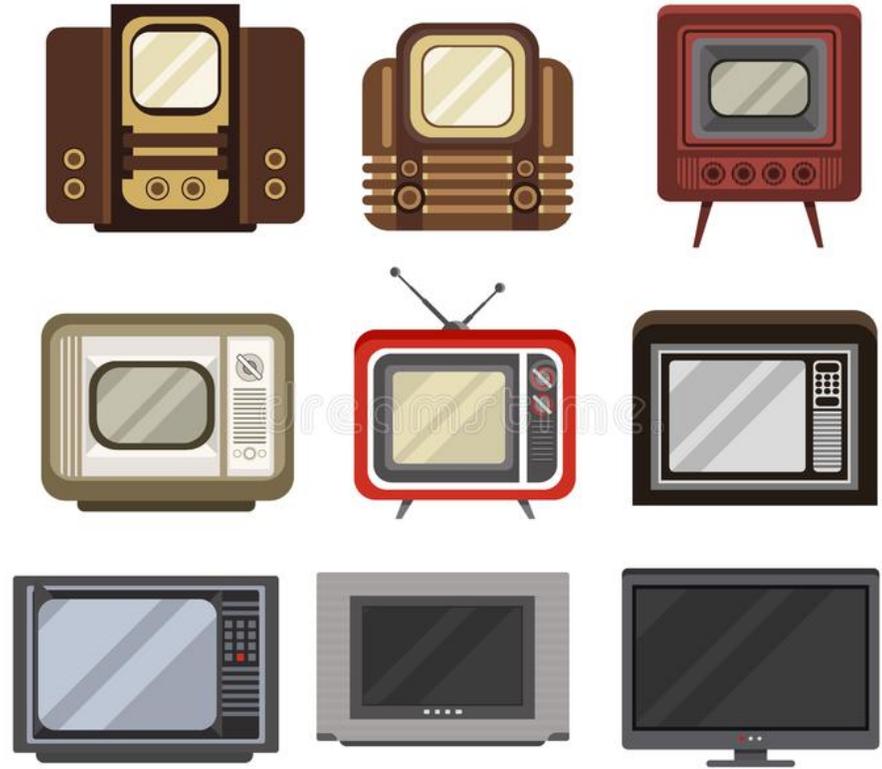
1. An intangible asset should be identifiable.
2. An intangible asset should have evidence of legal ownership, that is, documents that substantiate rights.
3. An intangible asset should be capable of being separate and divisible from the real estate.
4. An intangible asset should be legally transferrable.

Adams Express:

- “... the goodwill of an organization and established industry must be recognized as a thing of value.”

The challenge of obsolescence

- Using the cost approach usually avoids the problem of intangible value
- Using historical or replacement cost less depreciation may not reflect functional and economic obsolescence



Obsolescence not accounted for in normal depreciation schedules

Economic

- A reduction in value caused by factors that are not on the property, in the property, or even within the property lines.
 - Neighborhood experiencing a rise in crime
 - MA ban on vaping products

Functional

- A reduction in an object's usefulness or desirability because of an outdated design feature that cannot be easily changed
 - Warehouse ceiling height and access

But how should obsolescence be quantified?

- Comparison of actual performance with some standard of expected performance
 - Revenue shortfall
 - Relative capacity utilization



The challenge of uniformity

State-Assessed industries

- Legacy telephone companies
- Wireless telephone companies
 - AT&T
 - Verizon
- Unit approach including income

Locally-assessed industries

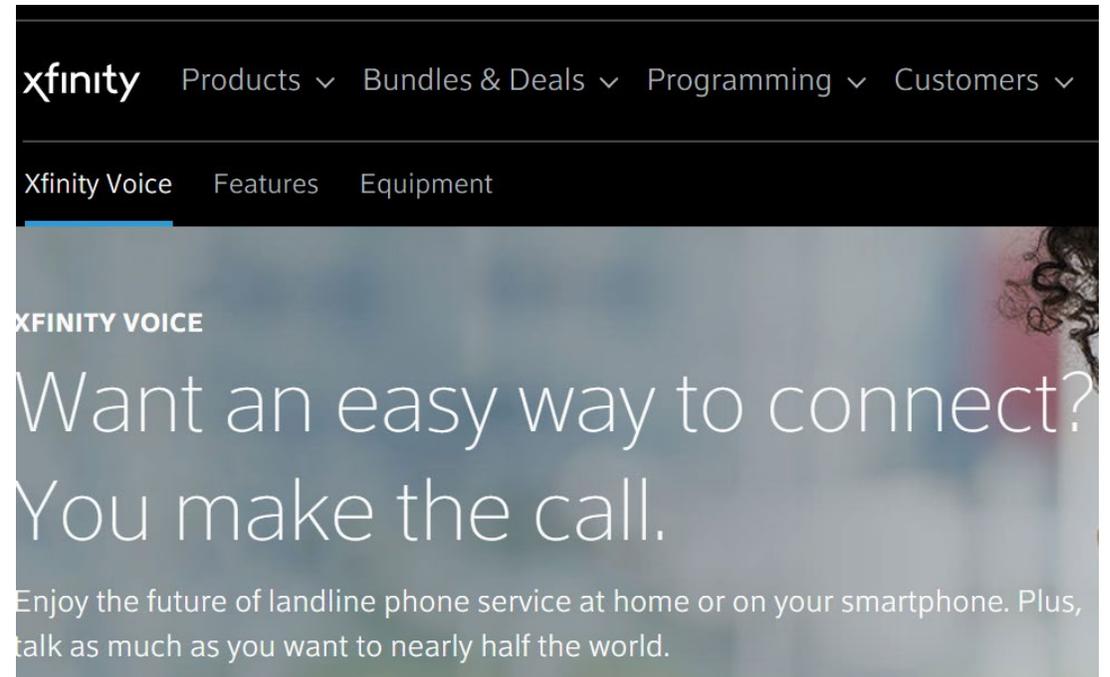
- Cable TV companies
 - Comcast, etc.
- Fiber optic network providers
- Summation approach based on depreciated cost

Direct competitors should be treated the same by the tax system

Introducing AT&T TV. It's Televisionary.

All your entertainment, all in one experience.

- Live TV & 55,000 on-demand titles
- 500 hours of Cloud DVR storage
- Access to 5,000+ apps like Netflix & Pandora



The screenshot shows the Xfinity website navigation menu with the following items: xfinity, Products, Bundles & Deals, Programming, Customers, Xfinity Voice, Features, and Equipment. The Xfinity Voice page is active, displaying the headline "Want an easy way to connect? You make the call." and a sub-headline "Enjoy the future of landline phone service at home or on your smartphone. Plus, talk as much as you want to nearly half the world." The background of the page features a blurred image of a person's face.

Equity in property valuation

Single jurisdiction commercial properties

- Locally assessed
- Summation approach
- Sales comparison if sufficient data and expertise exist
- Depreciated cost otherwise
 - Marshal & Swift
- Rental income in sophisticated jurisdictions
- Values are often out of date

Multi-jurisdiction commercial properties

- State assessed in most states
- Unit approach
- Income and historical cost approaches
- Rarely comparable sales
- Values get updated annually

Is there a better way?

Thank you!