



STATE TAX COMMISSION OF MISSOURI ASSESSOR MANUAL

CHAPTER:

ORIGINAL ASSESSMENT

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3.0 ORIGINAL ASSESSMENT

All other departments within the State Tax Commission are advisory, supervisory, administrative, etc. The original assessment department is the sole department which is actually charged with preparing the assessment of property, specifically, railroad and utility property.

1. Missouri Statutes

The statutes of the State of Missouri provide for the taxation of railroad and public utility companies in RSMo 151 and 153 as follows: 511 SW2d 762, 771 (Mo. 1974), MAI No. 16.02, 449 SW2d 798, 801-803 (Mo. 1973), 564 SW2d 888, 897 (Mo. banc 1978).

2. Fair Market Value

It is our obligation at the State Tax Commission to appraise and assess railroad and public utility property at "**actual cash value**", i.e., fair market value.

Fair market value can be defined as the most probable price, expressed in terms of money, that a property would bring if exposed for sale on the open market in an arms-length transaction between a willing seller and willing buyer, both of whom are knowledgeable concerning all the uses to which it is adapted and for which it is capable of being used, with equity to both.

This definition is substantiated in Missouri Law City of St. Louis vs Vasquez 341 SW2d 839, 843 (Mo. 1960), as follows:

"The term '**fair market value**' means the price which her property would bring when offered for sale by one willing, but not obliged to sell it, and is bought by one willing or desirous to purchase it but not compelled to do so."

An appraisal made for the purpose of determining a value to be used for the basis of ad valorem tax meets the fair market value definition. In making an appraisal, the appraiser determines fair market value of the property since "**ad valorem**" is defined as "**according to value**".

The basic theory of property taxation is that property should be taxed relative to its value,

presumably determined by what it would sell for in an open market. The comparable sales concept works well for determining the value of traditional real estate, but is rarely used for determining the value of railroads and public utilities. The appraiser must utilize various methods and techniques to fairly estimate what the utility's property would sell for if it were offered for sale on the open market, by a willing buyer and willing seller, both of whom are knowledgeable, but are not forced to buy or sell. This is, in essence, the definition of fair market value.

There are two methods of arriving at fair market value. The first, known as the summation method, inventories each item of property and values it separately regardless of the cooperative effect it may have with the utility's other property. This generally produces values that do not reflect the value of the integrated property taken as an operating unit. The fallacy in this method is that without looking at how the individual piece of property contributes to the whole unit, the individual piece of property may be more valuable or less valuable to the unit than if valued independently of the unit. Because of the limitations of the summation method, the unit method (or "unit rule") has been implemented to determine fair market value.

3. Unit Value

The unit concept means that a collection of tangible assets functioning as an operating unit are to be appraised as a whole without reference to separate value of the component parts. Value accrues to the assets because of their ability to generate benefits as an operating unit.

In 1904, the Wisconsin Supreme Court presented logic behind a unit appraisal when it said:

“The separate value of the parts in the aggregate would not necessarily approximate to or be any legitimate measure of the value of all the parts, viewed as one complete machine so to speak. The plant in its parts as realty and personalty according to the character thereof, irrespective of the combination of all into one entire thing, might be of little value, and probably would be, as compared to what they would represent in the new form, produced by the union of many parts into one. The great value is produced by the combination of parts into one complete working machine, adapted in a high degree to the service of man.”¹

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Washburn v. Washburn Waterworks Co., 120 Wis. 575, 585, 98 N.W. 539 (1904)

The National Tax Association of Tax Administrators' Committee on Unit Valuation stated why a unit appraisal should be used:

“A unit appraisal is superior to summation appraisal ... 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 resorting to more reliable and more readily available evidence of value than those that would be used for a summation appraisal.”²

Therefore, the overriding concept in the valuation of utility and railroad property for ad valorem tax purposes is directed toward the unit value concept.

Valuation of utilities and railroads is complicated by the fact that these companies are affected by market forces of supply and demand as well as regulated by government commissions. As a result, basic appraisal principles and procedures may require adaptation to fit the condition of governmental regulation. This factor must be considered throughout the appraisal process.

Consistent with appraisal theory, to arrive at a unit value, three approaches to value are utilized. They are the **cost approach**, the **market approach** and the **income approach**. Utilizing more than one method provides a better indication of value and provides a "**check**" on each of the other methods.

4. Correlation

Finally, after the three approaches to value have been calculated, the next step is the correlation process. In this step of the appraisal process, the strengths and weaknesses of each approach must be weighed and analyzed. The final value is a judgment decision by the appraiser based on knowledge of the facts. The appraiser should not assign a specific weight to be used for each approach, nor simply average the approaches, but should place the most emphasis on the approach or approaches which the appraiser has the most confidence while relying on the other approaches for support.

5. Allocation

² Appraisal of Railroad and Other Public Utility Property for Ad Valorem Tax Purpose, Report of the Committee on Unit Valuation, National Association of Tax Administrators (1954)

After a fair market value has been correlated, the next step is to allocate the portion of the market value which is applicable to the assessing taxing district (i.e., Missouri). This is many times, a difficult and rather subjective task. There are many allocation elements which can be derived. We have utilized a process where we combine quantity and use/value factors to arrive at a Missouri allocation factor.

For reference to the allocation procedure for the various industries, please refer to the State Tax Commission rules on allocation of unit value (12 CSR 30-1.016)

After the allocation to the State of Missouri, the locally assessed properties are deducted to arrive at the distributable utility or railroad property.

Locally Assessed Property: Detailed information about locally assessed properties can be found in 12 CSR 30-2.011 and 2.015.

The local assessor is responsible for the assessment of real and personal property of water companies, gas distribution companies, cable television companies and rural electric cooperatives. For the companies deemed to be state assessed, the local assessor is also responsible for local assessment of certain properties of these companies. These properties include:

Railroad Companies:

- Construction-work-in-progress
- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures
- Office buildings, warehouses
- Roundhouses, workshops
- Land and buildings not assessed as distributable
- Communication equipment not used in the movement of passengers and freight

Telecommunication Companies:

- Construction-work-in-progress

- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures
- Office buildings and land
- Land held for future use
- Buildings used predominantly to house local property and land
- Workshops, warehouses and land
- Work equipment and other general equipment

Pipeline Companies:

- Construction-work-in-progress
- Materials and supplies
- Motor Vehicles
- Office furniture, office equipment and fixtures
- Land held for future use
- Communication equipment not used for control of transportation of gas or liquid products
- Workshops, office buildings, warehouses, storage tanks, loading and unloading facilities
- Land associated with other locally assessed property

Electric Companies:

- Motor vehicles
- Construction-work-in-progress
- Materials and supplies
- Office furniture, office equipment, office fixtures
- Coal piles, nuclear fuel
- Land held for future use
- Workshops, warehouses, office buildings and generating plant structures
- Communication equipment not used for control of generation and distribution of power
- Roads, railroads and bridges
- Reservoirs, dams and waterways
- Land associated with other locally assessed property and all generating plant land

To assess these properties, the local assessor should use the State Tax Commissions' Form 30, Schedules 14, 15, 16 and 17. The companies are to complete their information and return it to the local assessor by April 1st of the tax year. By April 20 the assessor must certify the true market value and assessment of all locally assessed property to the company, the county clerk and the State Tax Commission. The assessor should use the applicable statutory assessment rate for any locally assessed property. See copies of these forms following:

6. Apportionment

Pursuant to RSMO Chapter 151.080, the State Tax Commission shall apportion the aggregate value of all distributable property to each county, municipal township, city or incorporated town, special road districts, library districts, hospital districts, metropolitan zoological park and museum districts, public water supply, fire protection and sewer districts according to the ratio which the number of miles in these counties and districts bear to the whole length in the state.

3.1 AIRCRAFT

Pursuant to Chapter 155, the State Tax Commission is responsible for determining the assessed value of aircraft more than 7,000 pounds maximum certificated gross take off weight. As with all property, the assessment date is the first of January. Aircraft that falls below the weight limit is valued and assessed at the local level.

The Tax Commission utilizes various publications to arrive at the market value for the airline's aircraft. These publications include:

- Airliner Price Guide
- International Aircraft Price Guide
- Aircraft Bluebook-Price Digest

Each airline reports their aircraft that serves Missouri and the Tax Commission then determines the market value of their fleet. Each type of aircraft is valued and then all of the aircraft is totaled to

arrive at the total market value of the fleet. The Tax Commission does not value aircraft within an airline's fleet that does not service Missouri.

After the Tax Commission determines the market value of each airline's fleet serving Missouri, an allocation factor for the state must be determined. The allocation factor is the ratio of actual miles flown within the state to the total mileage of the aircraft being valued. This allocation factor is then applied to the total market value of the aircraft to determine Missouri's market value.

In 1994, Senate Bill 675 changed the method in which aircraft more than 7,000 pounds take off weight are to be assessed. The responsibility of assessing these aircraft is transferred from the local assessor to the State Tax Commission. Value placed on these aircraft by the State Tax Commission is allocated to the State of Missouri based upon the ratio of Missouri miles to the total miles in the preceding year. It is the responsibility of the taxpayer desiring to be assessed in the above manner to notify the assessor prior to April 15. See the associated form in this section. The information necessary to assess these aircraft must be collected from the taxpayer by the assessor. This information shall be provided to the State Tax Commission prior to May 1. Any taxpayer disagreeing with the assessment may appeal directly to the State Tax Commission by August 15 of the tax year without first appealing to the local Board of Equalization.

An assessment level of 331/3% is then applied to the Missouri value to arrive at the assessed valuation for the state. The airlines' level of assessment is 331/3% since the classification of the aircraft is personal property. The assessed value is then apportioned throughout the state on the basis of arrivals and departures within each county. The assessed values by county are certified along with the other centrally assessed property (railroad and public utility) to the counties in the state.

3.2 PRIVATE CAR COMPANIES

In 1988, three private car line companies, Trailer Train, Railbox and Railgon, filed an appeal in the U.S. District Court of Missouri-Central Division. In December 1989, a class action suit was also filed in the U.S. District Court questioning the constitutionality of the private car tax. In October 1989, the U.S. District Court for the Western District of Missouri, Central Division, ruled that "**private car tax**" is in violation of the 4-R Act (Railroad, Revitalization and Regulatory Reform

Act of 1976) Section 306 (1)(d). During 1990, the 8th Circuit of the U.S. Court of Appeals upheld the District Court's 1989 decision. The state appealed the circuit court decision but in October 1991, the Supreme Court denied to rehear this case.

With the Federal Court of Appeals, Eighth Circuit decision declaring Chapter 152 (Private Car Tax) to be in violation of the 4-R Act and the passage of Senate Bills 630 and 765 during the 1992 legislative session, in 1993 the Tax Commission began administering an ad valorem tax on the private railcars. Basically, a private car company owns and/or leases rolling stock and does not own, control or lease track or trackage rights. This rolling stock (railcars) is the property which is subject to the ad valorem tax.

As a result of new legislation passed, beginning January 2000, the private car companies' assessed values are certified to the Missouri Department of Revenue for billing and central collection. The taxes are collected by the Director of Revenue, less one percent for the cost of collection which are deposited in the state's general revenue fund, and then placed in the "County Private Car Tax Trust Fund". Prior to distribution of the tax to the counties, six-tenths of one percent of the fund is transferred to the blind pension fund. The remaining funds are apportioned to the counties in the state, based upon the ratio of the total main line track mileage of the railroad and street railway companies within each county to the aggregate total of the state.

The county upon receipt of the taxes from the director apportions seventy percent of the revenues received to the county's school districts using the same basis of distribution as used in distributing receipts from the average school tax rate for that year, and the remaining thirty percent to the county general revenue fund.

The State Tax Commission provides reporting forms (Form 50) to the private car companies based on the previous year mileage reports from both the private car and railroad companies. Also, any private car company reported in the current year railroad reports (Form 20, Schedules 17 and 18) will be provided with the reporting forms.

1. Valuation and Assessment

According to Section 137.022, RSMo, "the equipment owned by said companies known as

“flanged wheel equipment” shall be assessed by the state tax commission and shall be taxed in the manner of railroads, as provided in chapter 151, RSMo." Presently, the State Tax Commission determines the market value of the railroad's property based on the Unit Rule. This approach utilizes the three indicators of value, which are cost, market and income. Regarding the private car companies, the cost approach is the only indicator utilized due to the limited information provided and the number of companies operating within the state.

As with the railroads, the original cost at acquisition is the starting point in the valuation process. This cost is then depreciated at an annual rate to determine the depreciated value. The depreciation schedule adopted for the private car industry measures all forms of depreciation and obsolescence, which are physical, functional and economic. The depreciation rate used for the railroad industry only measures the physical deterioration with the "**Best of the Best**" method measuring the functional and economic obsolescence inherent in the property. Following is the schedule adopted for the private car industry:

| <u>Year of Acquisition</u> | <u>Percent Good</u> |
|----------------------------|---------------------|
| Current | 100% |
| 1st Preceding | 90% |
| 2nd Preceding | 80% |
| 3rd Preceding | 70% |
| 4th Preceding | 60% |
| 5th Preceding | 50% |
| 6th Preceding | 40% |
| 7th Preceding and Prior | 30% |

This depreciated cost is considered as the "**market**" value of the railcars. To test the validity of this market indicator, the State Tax Commission also valued selected private car companies' railcars using the method employed for the railroad industry and arrived at approximately the same results as the above depreciation schedule. This market value is then multiplied by the level of assessment of 331/3% to arrive at the assessed value of the property.

2. Allocation

For the private car industry, the Tax Commission relies on a time factor for their allocation to Missouri. This method determines the maximum number of days in which the railcars of the private car company could travel within a year by multiplying the total number of cars by 365 days. To arrive at the number of days the railcars spend within Missouri, the total number of miles within the state will be divided by the "**typical**" number of miles per day within the state. The typical number of Missouri miles within a day will be based on "**time studies**" of the private car industry which are periodically reviewed by the Commission.

3.3 IMPORTANT DATES TO REMEMBER FOR ASSESSOR'S OFFICE

Utility Forms to Assessor:

Schedule 14 Local Assessment, Schedule 15 Real Estate Information, Schedule 16 Motor Vehicle Information, Schedule 17 when applicable is due from the Company to the Assessor's Office by **April 1st**. Utility and railroad companies should deliver these forms to your office by this date, completed up to the columns for market value and assessment.

Local Assessment Forms Due to the State Tax Commission, County Clerk and Company:

The assessor is required to certify the true market value and assessment of all locally assessed railroad and utility property. The certification is completed by signing the schedules (14,15,16,17) and delivering them to the county clerk, the railroad or utility company and the State Tax Commission by **April 20th**.

Aircraft Assessment:

Aircraft owners of corporate aircraft over 7,000 pounds take off weight shall notify the assessor's office of their claim of commercial aircraft to be state assessed by **May 1st**. The assessor then provides to the State Tax Commission the name of the company, the aircraft owned or leased, the company total mileage and Missouri mileage for the preceding year.