

Montana Department of
REVENUE

***Property Appraisal and Appeal Process
& Natural Resource Taxes***

***Montana Association of School
Business Officials***

General Outline

- Discussion of Centrally Assessed and Industrial Property
 - *Centrally Assessed and Industrial Property Descriptions*
 - *Property Classes and Market Values*
 - *Basics on Determining Market Values*
- Appeal Process
- Current Appeals
- Natural Resource Taxes
- Resources and Contact Information

General Process and Timeline

- All property is appraised as of January 1 (lien date)
- All property is appraised using the cost, income and market approaches when appropriate information is available

Centrally Assessed Property:

- Appraised annually
- All of the property owned by a centrally assessed companies; *e.g. buildings, land, equipment, and mileage property (e.g. railroad tracks and power lines)*
- No distinction is made between real or personal property in the appraisal process

Industrial Property:

- Real property is appraised on the same cycle as residential and commercial property (Every 6 years); *e.g. buildings and land*
- Personal property is appraised annually; *e.g. machinery and equipment*

Centrally Assessed Property - Timeline and Examples

Centrally Assessed Property Timeline:

- Companies report financial and operating information annually
 - Electric and Gas Utilities, Electric Generation, Telecommunication, Cooperatives annual reports are due *March 31* of each year
 - Railroads and Pipelines annual reports are due *April 15* of each year
- Appraisals and informal reviews are conducted from *March 31* through *June 30* of each year
- Values are certified with all other property; first Monday in *August*

Examples of Centrally Assessed Property:

- *Railroads and Airlines*
- *Telecommunication Companies*
- *Electric and Gas Utility Companies*
- *Natural gas pipelines - Oil pipelines*

Industrial Property - Timeline and Examples

Industrial Property Timeline:

- Real property is appraised cyclically (same cycle as Residential and Commercial)
 - Established by the Legislature
- Personal property is valued annually
 - Personal property reports are due 30 days after receipt of annual turnaround report
- Appraisals and informal reviews are conducted from *March* through *July* of each year
- Values are certified with all other property; first Monday in *August*

Examples of Industrial Property:

- *Oil Refineries*
- *Sawmills*
- *Light and High-Tech Manufacturing*
- *Large Grain Handling Facilities*
- *Coal and Metal Mines*

Three Approaches to Determine Market Value

Cost Approach:

- Real Property – Appraisal Cost Tables
- Personal Property – Trending and Depreciation Tables
- Balance Sheet (*Centrally Assessed Property*)
- Source of Information: Property owner's balance sheet, other audited records, fixed asset lists, site maps, engineering records

Income Approach:

- Discounting an income stream
- Source of Information: Property owner's income statement and financial markets information

Market Approach:

- Comparable sales of like property
- Stock and Debt Financial Values (*Centrally Assessed Property*)
- Source of Information: Comparable property sales price or financial markets information


Telecommunication Company Appraisal Example

MONTANA DEPARTMENT OF REVENUE

APPRAISAL REPORT

ABC Telecommunication

COMPANY ID NUMBER: 500



Montana Department of
REVENUE

MONTANA DEPARTMENT OF REVENUE
Business Tax & Valuation Bureau

Appraised by:

FINAL

LIEN DATE: January 1, 2014

Telecommunication Company Appraisal

CORRELATED UNIT VALUE

ABC Telecommunication	Tax Year 2014	
VALUE INDICATORS	Before I.P.P.*	After I.P.P.*
Original Cost less Depreciation - GAAP	\$ 23,814,168,817	\$ 12,920,939,613
Direct Capitalization of Net Operating Income	22,162,003,774	18,837,703,208
Direct Capitalization of Gross Cash Flow	19,842,126,890	16,865,807,856
Yield Capitalization of Free Cash Flows	26,869,829,138	22,839,354,768
Yield Capitalization Discounted Cash Flow	18,717,879,192	15,910,197,313
Stock & Debt Approach	29,662,760,844	25,213,346,717
Subject Sales Price	19,876,918,733	16,895,380,923
Stock & Debt Approach #2	29,833,889,440	25,358,806,024
Stock & Debt Approach #3	32,685,355,899	27,782,552,514
* I.P.P. Intangible Personal Property (15% Exemption)		
CORRELATED UNIT VALUE	\$21,700,000,000	\$16,300,000,000
ALLOCATION FACTOR	2.0000%	2.0000%
MONTANA ALLOCATED VALUE	\$434,000,000	\$326,000,000
	<u>OCLD</u>	<u>MARKET</u>
LESS HAND HELD TOOLS	(\$11,675)	(\$14,728)
LESS LICENSED VEHICLES	(\$1,111,781)	(\$1,402,532)
OTHER DEDUCTIONS	\$0	\$0
TOTAL OTHER DEDUCTIONS/EXEMPTIONS	(\$1,123,456)	(\$1,417,260)
ADJUSTED MONTANA VALUE		\$324,582,739.85
TOTAL MONTANA VALUE TO BE DISTRIBUTED TO COUNTIES		\$324,582,000

Centrally Assessed Market Values

	Property Class (Tax Rate)	Number of Companies	2012 Market Value	2013 Market Value	Percent Change
<u>Centrally Assessed Property:</u>					
Railroad Companies	12 (3.28%)	9	\$ 1,934,251,916	\$ 2,031,488,904	4.8%
Electric & Gas Utilities and Electric Generation Companies	5 (3%), 9 (12%), 13 (6%), 14 (3%)	12	\$ 4,371,906,135	\$ 4,641,273,460	5.8%
Telecommunication Companies	13 (6%)	29	\$ 1,233,260,972	\$ 1,189,499,714	-3.7%
Scheduled Airline Companies	12 (3.28%)	15	\$ 161,562,348	\$ 166,191,446	2.8%
Telephone Cooperatives	5 (3%)	10	\$ 317,318,124	\$ 346,815,504	8.5%
Pipeline Companies	9 (12%)	22	\$ 1,183,507,196	\$ 1,390,191,776	14.9%
Electric Cooperatives	5 (3%)	32	\$ 788,467,585	\$ 773,543,731	-1.9%
Total		129	\$ 9,990,274,276	\$ 10,539,004,535	5.2%
<i>Total Statewide Market Value</i>			81,280,001,448	85,832,331,146	
<i>Percent of Total Statewide Market Value</i>			12.29%	12.28%	

The Appeal Process

Centrally Assessed and Industrial Property

Centrally Assessed Property Appeal Process:

- Business and Income Taxes Division (DOR) – Informal
- **Office of Dispute Resolution (DOR) – Formal**
- State Tax Appeal Board – Formal
- District Court – Formal
- Montana Supreme Court – Formal

Industrial Property Appeal Process:

- Business and Income Taxes Division (DOR) – Informal
- **County Tax Appeal Board (CTAB) – Formal**
- State Tax Appeal Board (STAB) – Formal
- District Court – Formal
- Montana Supreme Court – Formal

Protested Taxes

Centrally Assessed Companies

Company	Year	Tax Protested	Total Uncontested	Total Tax	Protested %	State Portion of Protested Tax
Airlines:						
Alpine Air Aviation	2013				0.0%	-
Pipelines:						
Omimex Resources, Inc.	2011	1,676,420	210,559	1,886,979	88.8%	342,255
	2012	252,163	332,957	585,120	43.1%	71,239
	2013	368,928	122,977	491,905	75.0%	73,060
		<u>\$ 2,297,511</u>	<u>\$ 666,493</u>	<u>\$ 2,964,004</u>	<u>77.5%</u>	<u>\$ 486,554</u>
Telecommunications:						
AT&T Mobility	2011	3,816,075	673,425	4,489,500	85.0%	641,802
	2012	1,709,019	863,728	2,572,747	66.4%	286,917
	2013	1,721,327	676,841	2,398,168	71.8%	286,373
		<u>\$ 7,246,421</u>	<u>\$ 2,213,994</u>	<u>\$ 9,460,415</u>	<u>76.6%</u>	<u>\$ 1,215,092</u>
Total Centrally Assessed		\$ 9,543,932	\$ 2,880,486	\$ 12,424,419	76.8%	\$ 1,701,646

Industrially Assessed Companies

Company	Year	Tax Protested	Total Uncontested	Total Tax	Protested %	State Portion of Protested Tax
Oil Refineries:						
Phillips 66	2013	3,395,928	5,588,009	8,983,937	37.8%	679,186
		<u>\$ 3,395,928</u>	<u>\$ 5,588,009</u>	<u>\$ 8,983,937</u>	<u>37.8%</u>	<u>\$ 679,186</u>
Total Industrial		\$ 3,395,928	\$ 5,588,009	\$ 8,983,937	37.8%	\$ 679,186
Grand Total		\$ 12,939,861	\$ 8,468,495	\$ 21,408,356	60.4%	\$ 2,380,832

Natural Resource Taxes

- Oil and Gas Production
- Bentonite
- Cement & Gypsum
- Coal Severance
- Coal Gross Proceeds
- Metal Mines Gross Proceeds
- Metalliferous Mines License
- Miscellaneous Mines Net Proceeds
- Resource Indemnity and Ground Water Assessment
- US Mineral Royalties

Oil and Natural Gas Production Tax

- Oil and Gas Production Tax
 - Rates Set in Law – Percent of Gross Value
 - Tax is calculated by applying Rates to the Gross Value
 - Revenue to State and Local Government
- Privilege and License Tax
 - Tax Funds Board of Oil and Gas Commission
- Producers see one combined rate

Tax Rates - Oil

	Working Interest	Non-Working Interest
Primary Recovery Production		
First 12 months of production	0.76%	15.06%
Pre-1999 wells after 12 months	12.76%	15.06%
Post-1999 wells after 12 months	9.26%	15.06%
Stripper Wells (average 3 - 15 bbl/day)		
First 10 bbl/day	5.76% ¹	15.06%
Over 10 bbl/day	9.26% ¹	15.06%
Stripper Exemption Wells (average < 3 bbl/day)	0.76% ²	15.06%
Horizontal Wells - First 18 Months	0.76%	15.06%
Incremental Production		
New or expanded secondary recovery	8.76% ¹	15.06%
New or expanded tertiary production	6.06% ¹	15.06%
Horizontally Recompleted Wells - First 18 Months	5.76%	15.06%

¹Taxed at primary production rate if WTI > \$30 for quarter

²Taxed at 6.26% if WTI > \$38 for quarter

Tax Rates – Natural Gas

	Working Interest	Non-Working Interest
Primary Recovery Production		
First 12 months of production	0.76%	15.06%
Pre-1999 wells after 12 months	15.06%	15.06%
Post-1999 wells after 12 months	9.26%	15.06%
Stripper Wells (pre-1999 , average < 60 mcf/day)	11.26%	15.06%
Horizontally Completed Wells		
First 18 months of production	0.76%	15.06%
Post-1999 wells after 12 months	9.26%	15.06%

Oil and Gas Tax Filing and Distribution

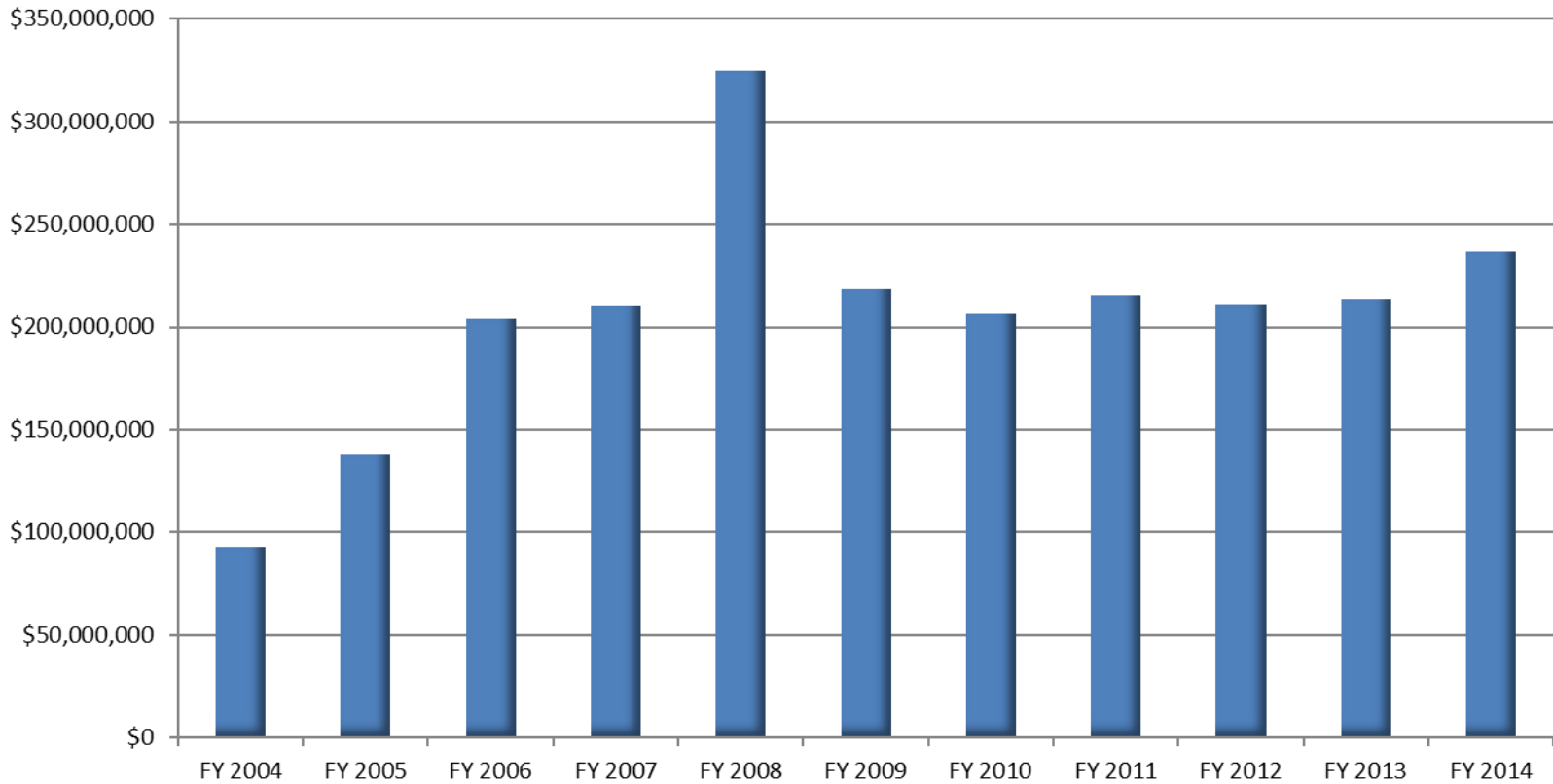
- Operator files return and pays tax for all participants
- Tax due 60 days after the end of each quarter
- DOR distributes revenue 60 days after tax is due
- Number of producers: 275
- Distribution occurs on or before:
 - August 1 (Quarter ending March 31)
 - November 1 (Quarter ending June 30)
 - February 1 (Quarter ending September 30)
 - May 1 (Quarter ending December 31)

Distribution FY2011 – FY2014

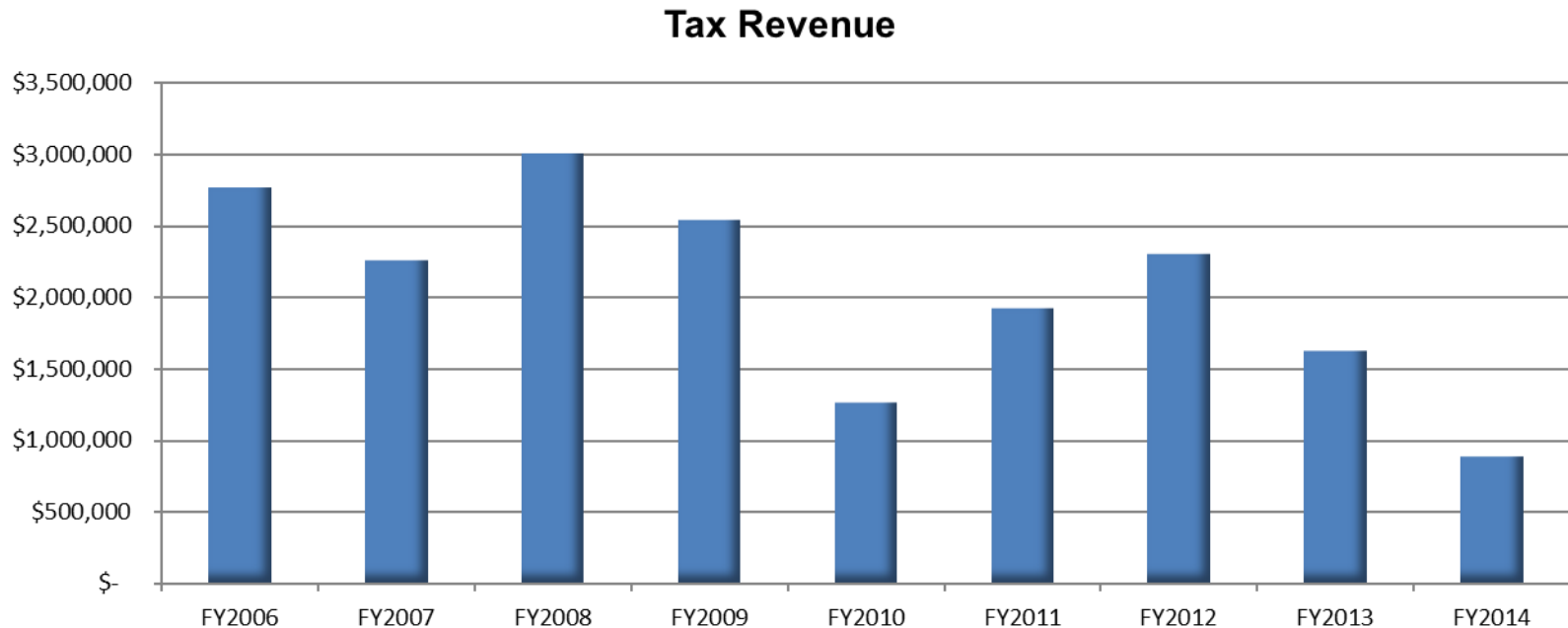
Fund	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Total Revenue	215,129,820.12	210,644,361.47	213,229,045.05	236,496,773.40
BOGC	1,963,032.13	1,987,666.08	2,152,701.95	2,505,507.93
Oil & Gas Natural Res. Acc.	3,698,515.78	3,754,061.08	4,100,929.04	4,732,701.42
Remainder	209,468,272.21	204,902,634.31	206,975,414.06	229,258,564.05
County Revenue	98,902,261.37	96,766,606.92	97,594,695.10	107,770,848.76
Counties and Schools	98,902,261.37	83,611,488.46	88,333,717.81	95,997,576.21
Guarantee Fund	0.00	12,335,596.02	4,830,528.84	0.00
County Impact Fund	0.00	682,935.37	1,725,188.87	0.00
State School Impact Fund	0.00	136,587.07	345,037.78	0.00
State School Oil & Gas Distrib	0.00	0.00	2,360,221.80	11,773,272.55
State Revenue	110,566,010.84	108,136,027.39	109,380,718.96	121,487,715.29
Natural Resources Projects (2.16%)	1,603,207.16	2,335,738.19	2,362,624.05	2,624,134.68
Natural Resources Operations (2.02%)	1,603,207.16	2,184,347.76	2,209,493.45	2,454,052.22
Orphan Share Fund (2.95%)	3,305,923.71	3,190,012.82	3,226,736.97	3,583,888.32
Montana University System (2.65%)	2,929,999.30	2,865,604.72	2,898,587.40	3,219,424.18
Coal Bed Methane Protection	1,359,961.96	0.00	0.00	0.00
General Fund (remainder)	99,763,711.55	97,560,323.90	98,683,277.09	109,606,215.89

Oil and Gas Tax Revenue

Total Revenue



Bentonite Tax



Tax based on dollars per ton

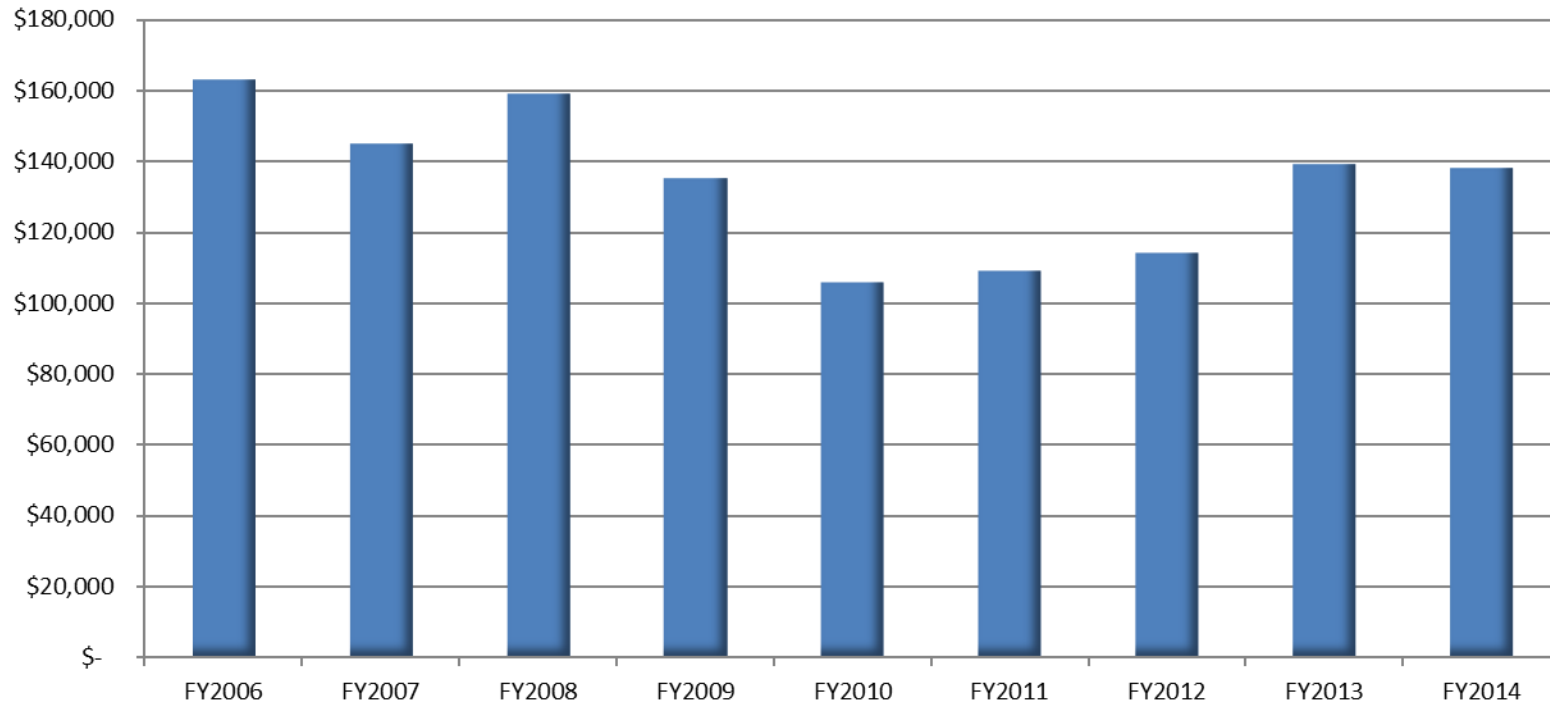
Number of Producers: <10

Tax distribution:

- 1.30% to special revenue fund to the University system
- 20.75% to state general fund
- 77.95% to the production county

Cement & Gypsum Tax

Total Revenue



Tax is based on dollars per ton

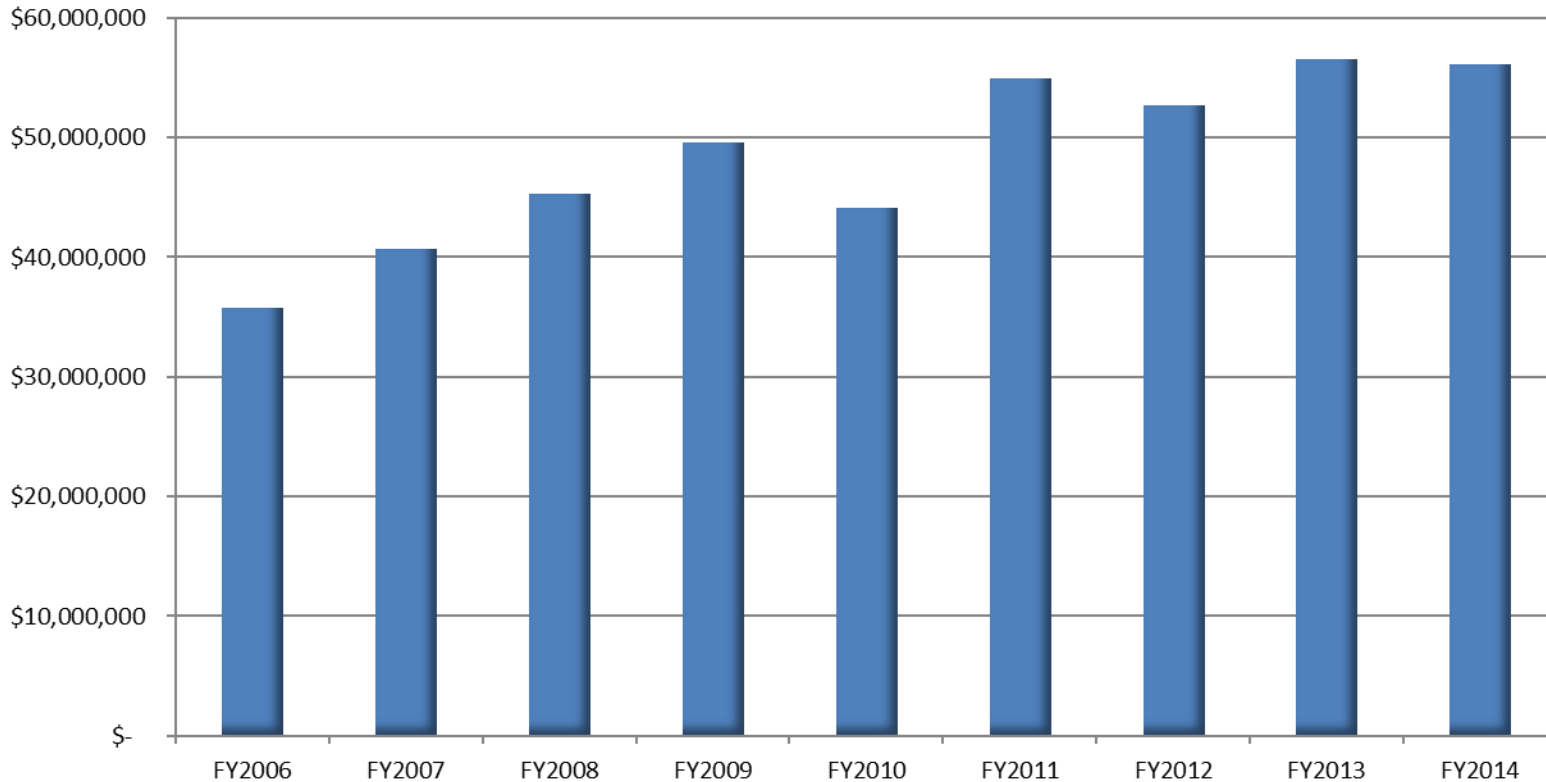
Number of producers: <10

Tax distribution:

- 100% to state general fund

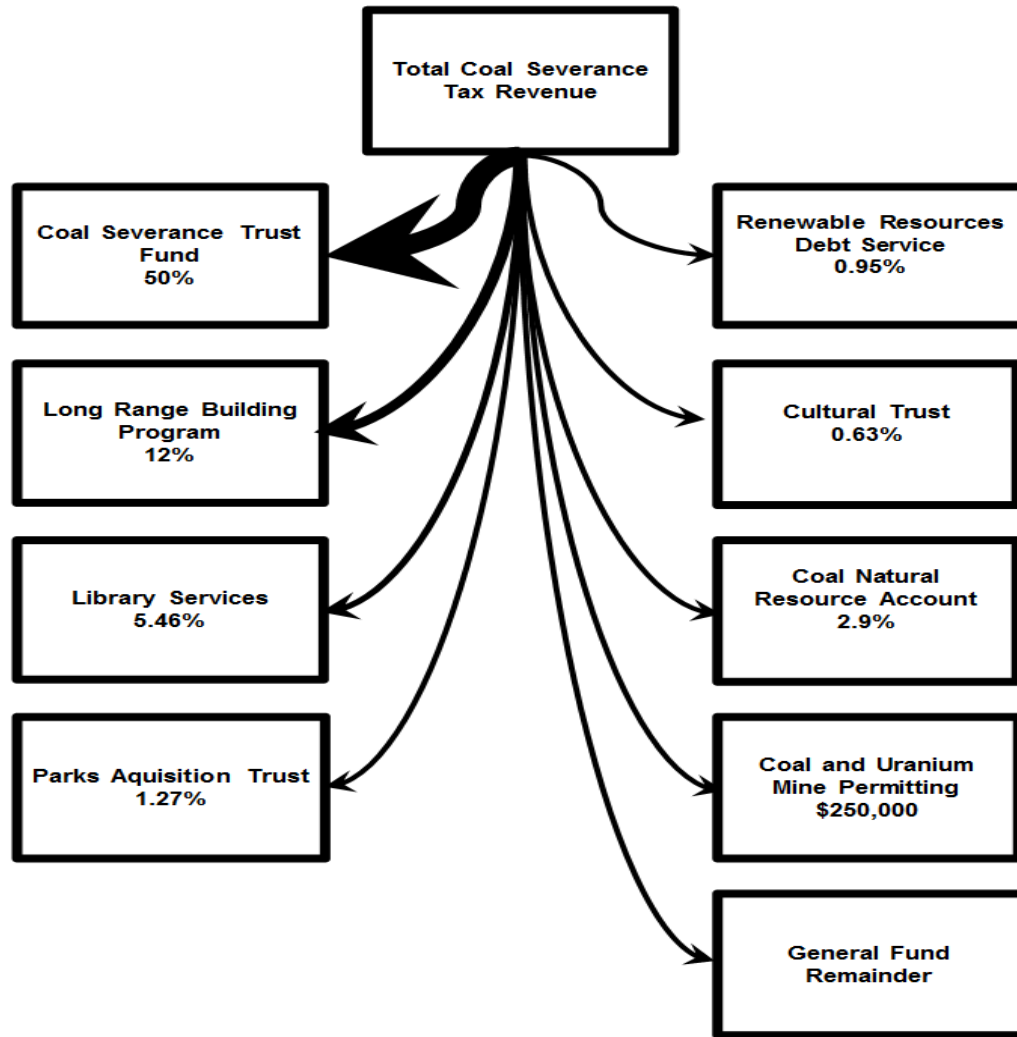
Coal Severance Tax

Total Revenue



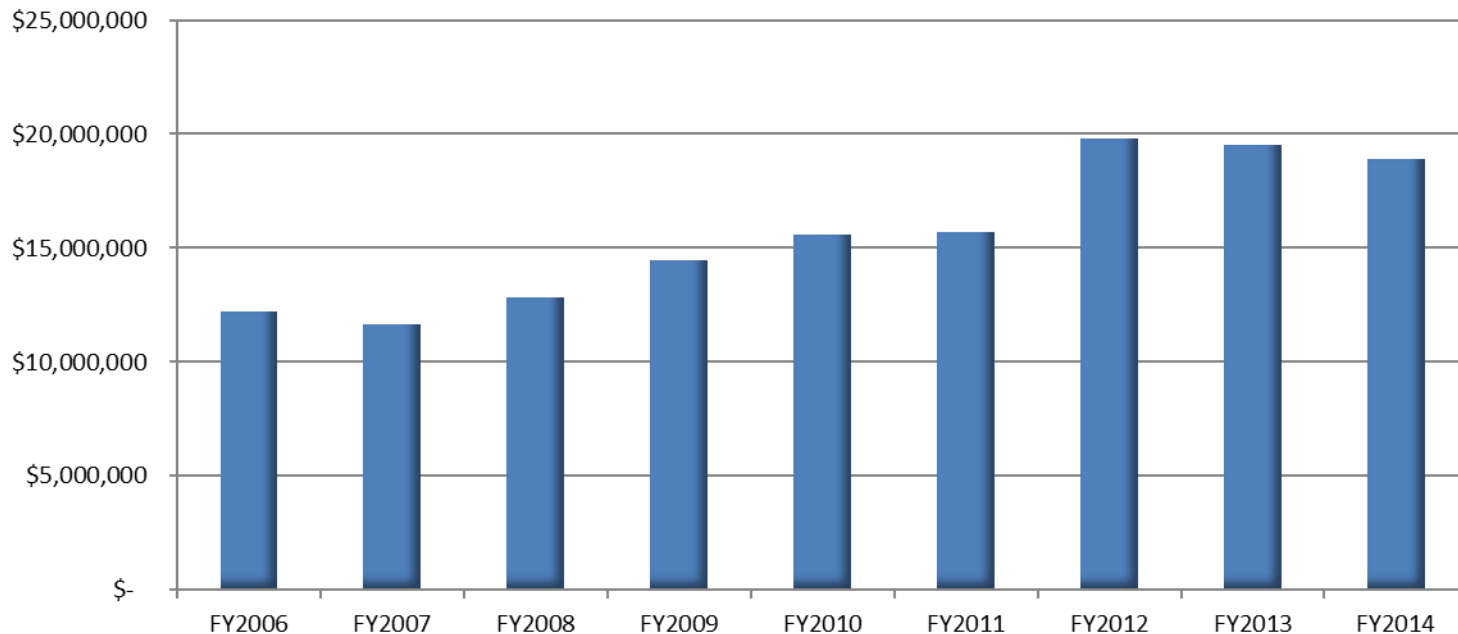
Tax based on a percentage per ton
Number of producers: <10

Coal Severance Tax Revenue Distribution



Coal Gross Proceeds Tax

Total Revenue



Tax is based on a percent of gross proceeds

Number of producers: <10

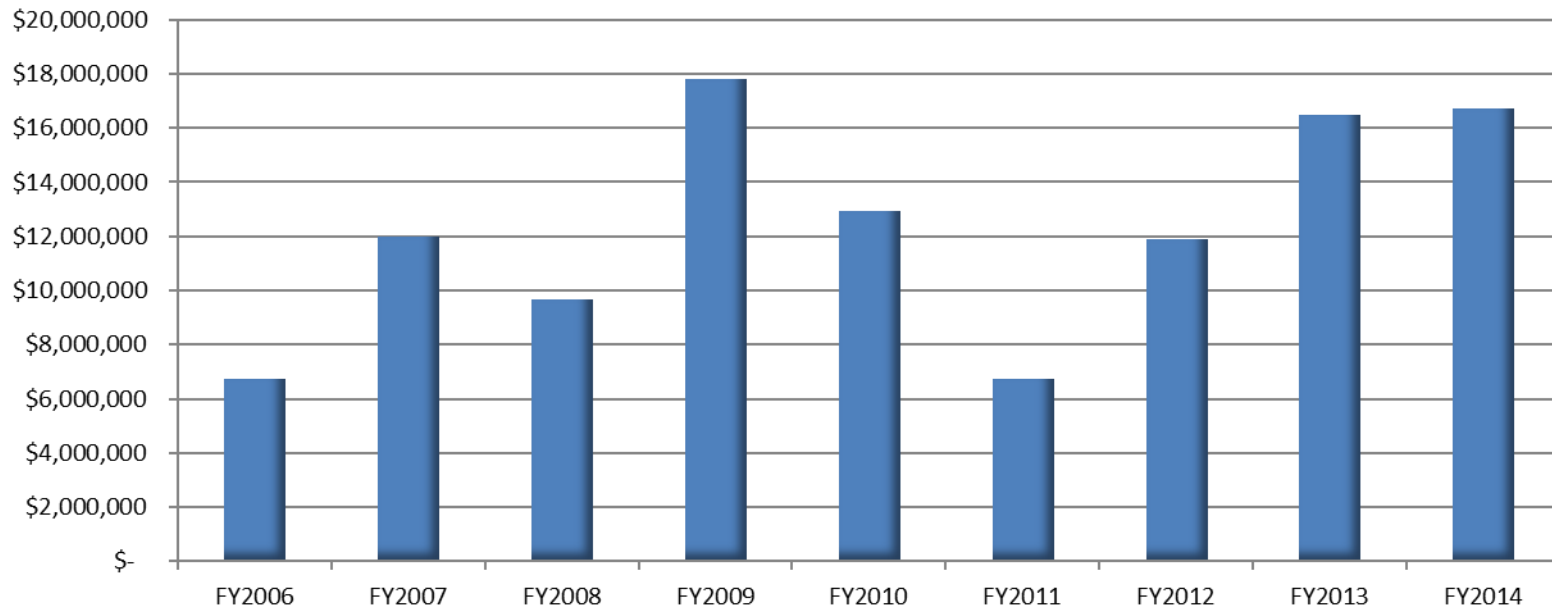
Tax distribution:

- Distributed proportionally to the appropriate jurisdictions in which the production occurred based on the total mills levied in fiscal year 1990

Metal Mines Gross Proceeds Tax

Class 2 property - All Metals; e.g. Gold, Silver, Copper, Platinum, etc.

Total Revenue



The tax is based on a percent of merchantable value

Number of producers: <10

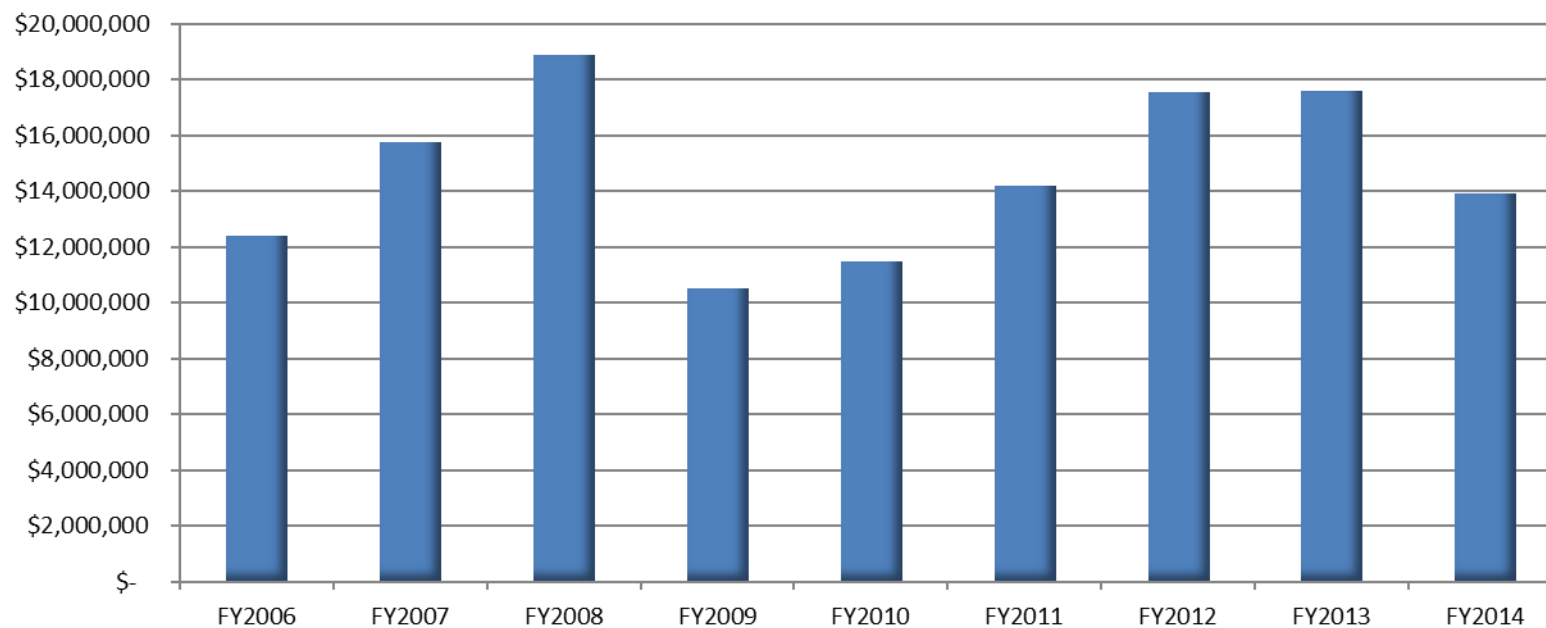
Tax distribution:

- The taxable value of metal mines gross proceeds is allocated to the local jurisdictions where the mine is located.

Metalliferous Mines License Tax

All metals; e.g. Gold, Silver, Copper, Platinum, etc.

Total Revenue



Tax is based on a percentage of gross value of the product.

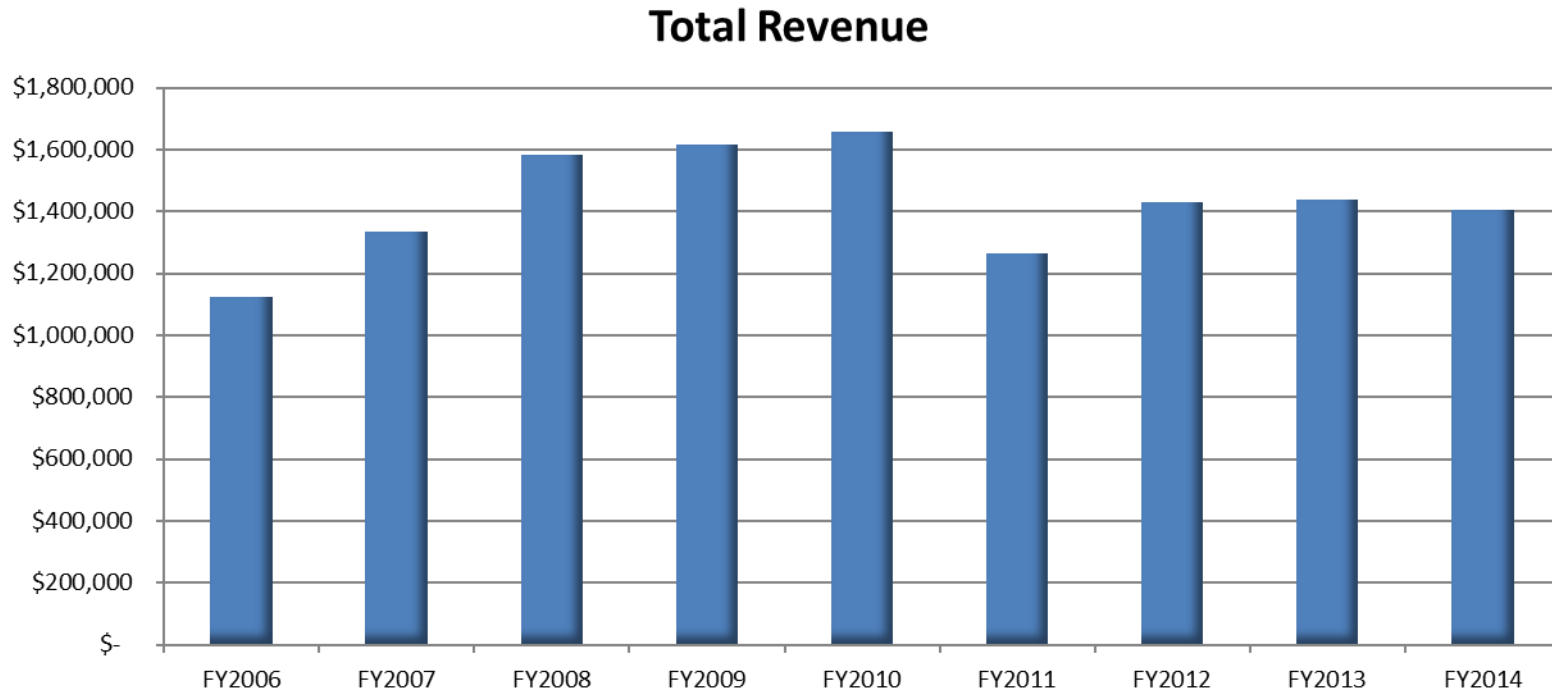
Number of producers: <10

Tax distributed as follows:

- 57% to State general fund
- 2.5% to hard rock mining impact trust account
- 8.5% to hard rock mining reclamation debt service fund
- 7% to natural resources operations account
- 25% to county governments

Miscellaneous Mines Net Proceeds Tax

Class 1 property – Talc, Vermiculite, Limestone and Garnets



Tax is based on a flat rate per ton of product mined.

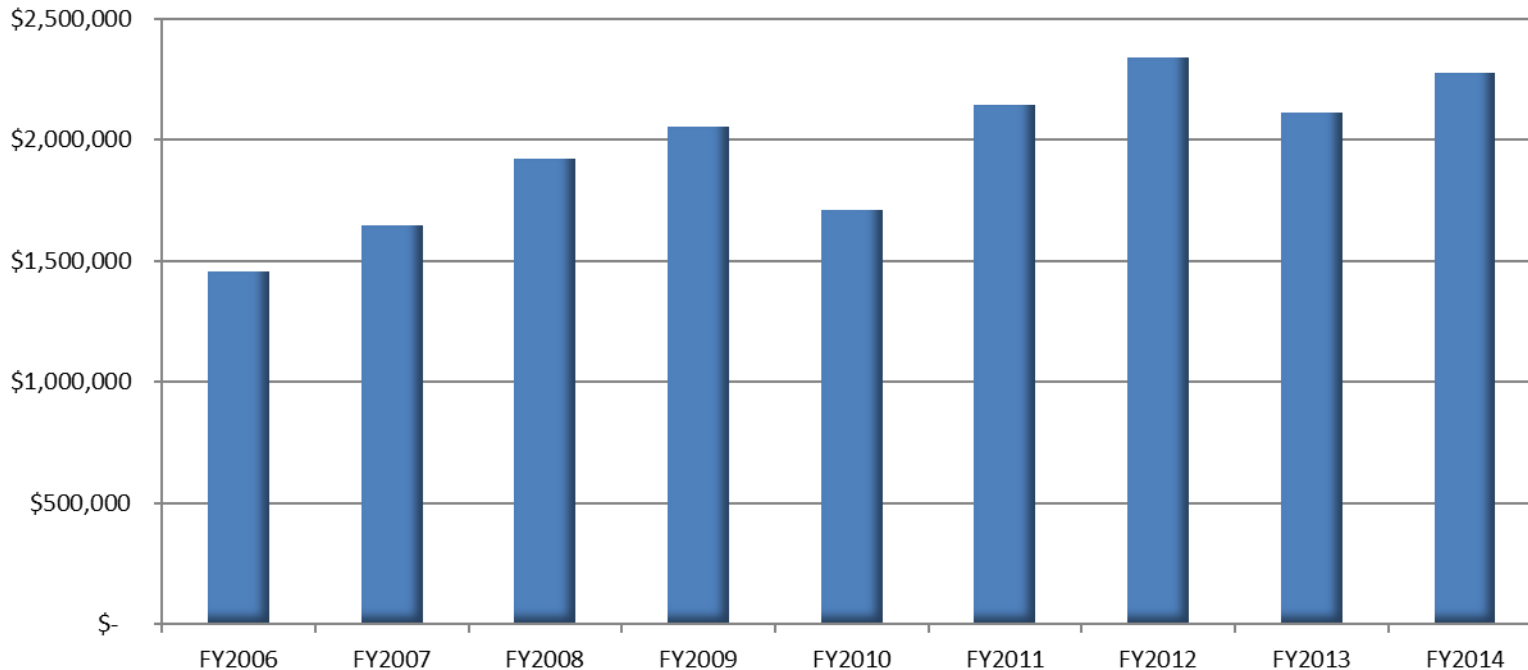
Number of producers: 11

Tax distributed as follows:

- The taxable value of miscellaneous mines net proceeds is allocated to the local jurisdictions where the mine is located.

Resource Indemnity and Ground Water Assessment Tax

Total Revenue



Tax is based on a percentage of the gross yield of the product mined. The percentage varies depending on the type of production.

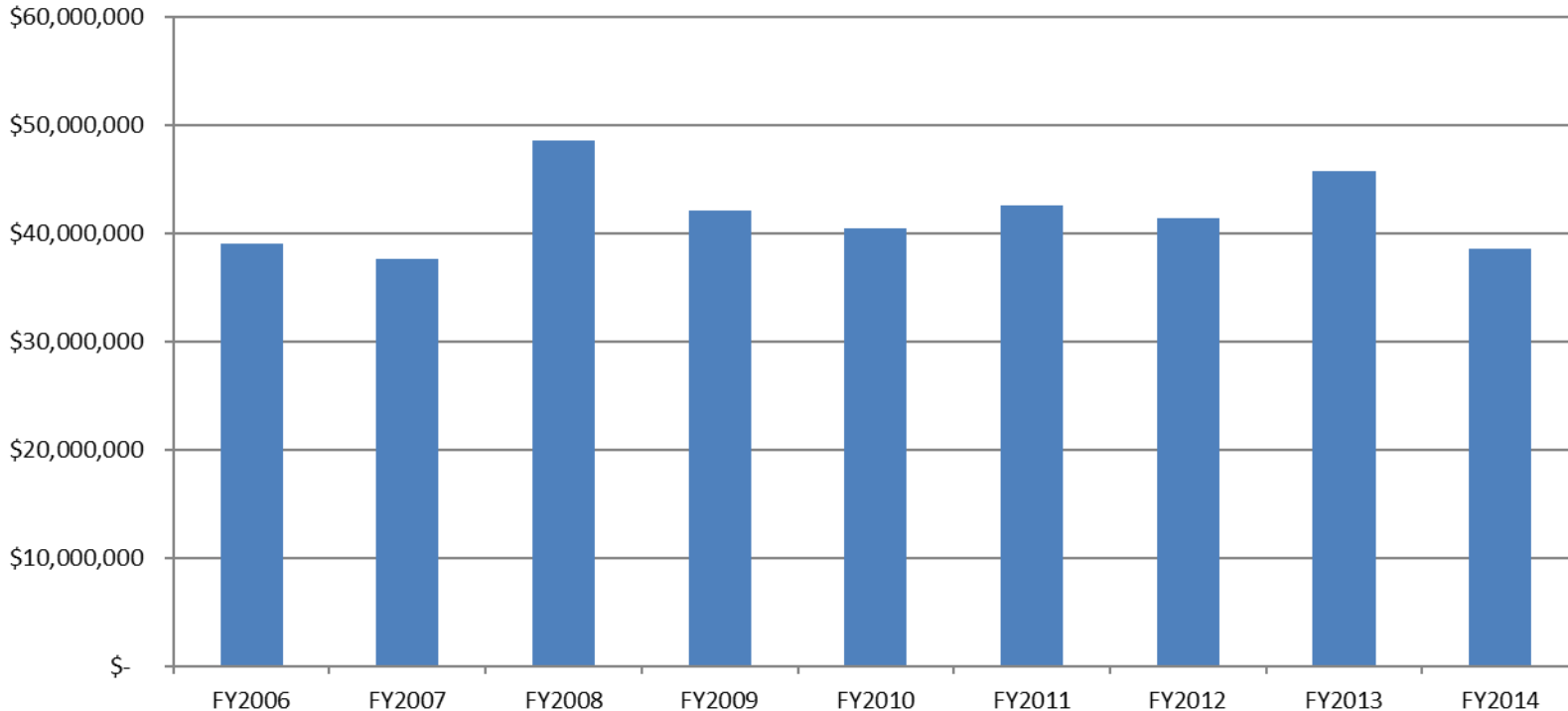
Number of producers: 30

Tax distribution:

- The tax is distributed to the reclamation project accounts.

US Mineral Royalties

Total Revenue



Royalties are based on a percentage of value

Royalties are paid on mineral extraction on Federal lands

Tax distribution:

- 75% to the general fund
- 25% to the counties of the production

Resource and Contact Information

Department's web page: <http://revenue.mt.gov/default.mcp>

- Biennial Reports – *Information on all of Montana's Taxes*
- Quarterly Oil and Gas Distribution Reports – *Information is by County and School District*
- Revenue and Transportation Interim Committee Reports – *Information on Current Events and Key Issues Impacting the Department*

Contact Information:

Kory Hofland
Utility and Industrial Property Unit Manager
406-444-2569
khofland@mt.gov

Gene Walborn
Business and Income Taxes Division Administrator
406-444-0908
gwalborn@mt.gov

Lee Baerlocher
Business Tax and Valuation Bureau Chief
406-444-3587
lbaerlocher@mt.gov

Questions?