

Unitil Property Tax Discussion

August 27, 2015



HB 192

- HB 192 seeks to have the Legislature decide for courts what evidence should be admissible
- Last year, the New Hampshire Supreme Court affirmed the BTLA's admission of DRA Appraisals in a case:
 - "The BTLA determined that the DRA appraisals were admissible and relevant to the taxpayer's claim regarding the market value of its property, and the record supports those determinations."
 - Portland Pipe Line v. Gorham (No. 2013-0613)

HB 192

- The Courts and the BTLA should be left to decide for themselves what evidence is relevant and admissible in the context of the particular case before them.
- They are well-equipped to do this with Rules of Evidence, bodies of law, long experience, appeals
- Courts give evidence the weight it deserves, based on relevance and credibility
- In the same way that Courts should not tell the Legislature how to do its business, the Legislature should not micro-manage judges, tie their hands, or make evidentiary decisions for them

HB 192

- Evidence of value can come in many forms:
 - Hired Experts
 - Third party appraisals done for other purposes
 - Governmental appraisals
- DRA is a governmental, revenue raising entity that is not a party to the case and has no connection to the Taxpayer. The DRA is charged with assessing the FMV of the same property for the same tax year. The DRA uses highly qualified and experienced appraisers. Therefore, the DRA's conclusion may be highly relevant.

HB 192

- Why are DRA appraisals offered into evidence by taxpayers?
 - They offer the uniformity and consistency that is lacking in town by town approach
- Mr. Brock will explain why uniformity and consistency is important to a utility like Unitil

NH PROPERTY TAX ASSESSMENTS

PRINCIPAL ISSUE FOR NH UTILITIES

- Disparity of valuations among Towns, State (DRA), Counties and taxpayers must be fixed.
- Standards, rules and guidelines must be created.
- Current lack of standards has created chaos and costly litigation.
- Sanity must be restored.

NH PROPERTY TAX ASSESSMENTS

DESIRED OUTCOME FOR NH UTILITIES

- Utilities need a fair and equitable assessment process to support ratemaking.

NH PROPERTY TAX ASSESSMENTS

FAIR MARKET VALUATION OF UTILITY ASSETS

- Public utilities like Unitil exist to provide safe, reliable and cost effective electric and gas service to all customers in its service territories.
- Utilities are allowed to earn a reasonable profit through regulated rates.
- The only basis on which a utility earns a “return of” and a “return on” is the Net Book Value of its assets.

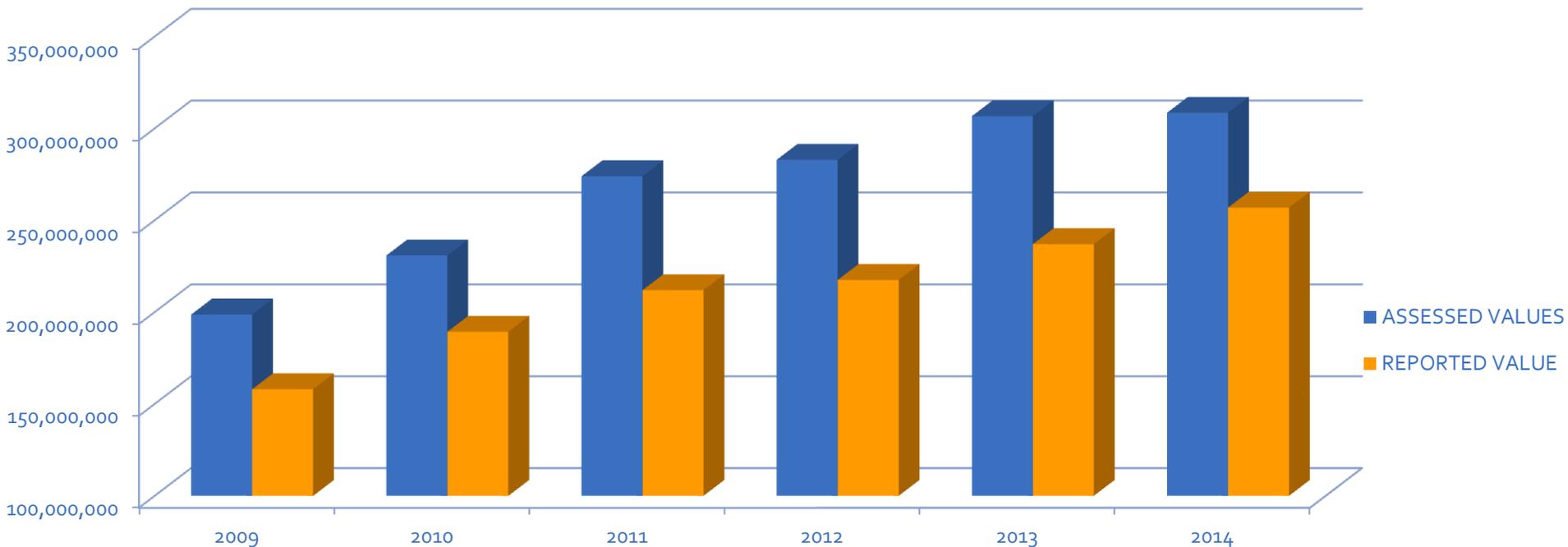
NH PROPERTY TAX ASSESSMENTS

FAIR MARKET VALUATION OF UTILITY ASSETS

- The Net Book Value of a utility's assets = Historical cost less accumulated depreciation.
- Most utility assets are unique self-constructed assets.
- Conclusion: The Fair Market value of a utility's assets is closely tied to the value on which it is allowed to earn, and that value is always Net Book Value. In other words, Regulation drives the Fair Market Value of utility assets.

New Hampshire Property Tax

Assessed Value vs. Reported Value



NH PROPERTY TAX ASSESSMENTS

CONSEQUENCES TO RATEPAYERS AND TAXPAYERS

- When assessed value of a utility's assets is "appraised" higher than its reported net book value, then chaos results and economics to citizens become corrupted.
- Imagine valuing an Applebee's or a Cumberland Farms' assets on a different basis in two different towns = unfair.
- Standards exist to value: Land, Buildings, and Manufactured Housing – Why no standards to value Utility assets?

NH PROPERTY TAX ASSESSMENTS

CONSEQUENCES TO RATEPAYERS AND TAXPAYERS

- A vacuum of fair and equitable standards to value utility assets has existed for a long time.
- The status quo is unacceptable.
- The range of variation across the towns is from 100% to 256% of Unitil's reported net book value.

NH PROPERTY TAX ASSESSMENTS

CONSEQUENCES TO RATEPAYERS AND TAXPAYERS

- What happens to NH citizens when Assessors overstate the value of utility assets in Town?
- There are winners and there are losers.
- Certain towns export tax burden to other towns.
- All utility customers in NH pay higher rates, some towns benefit.

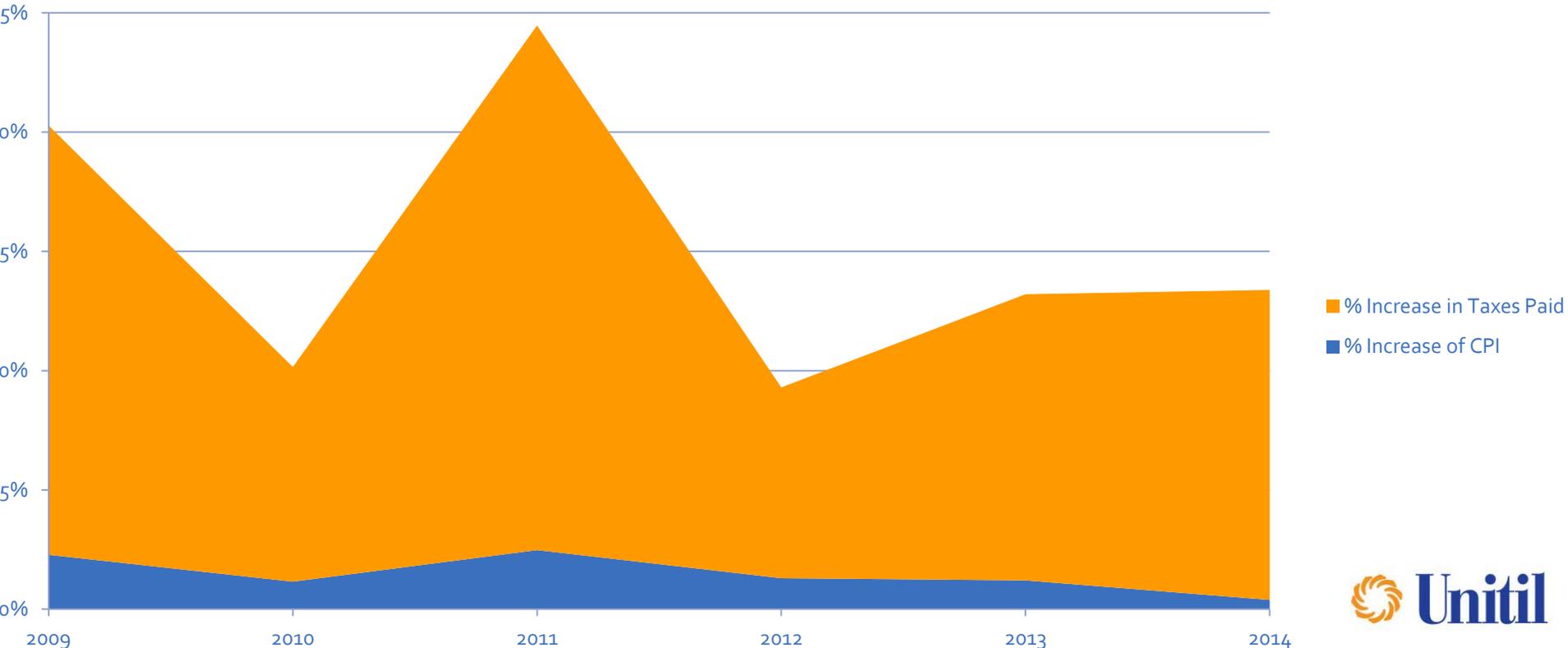
NH PROPERTY TAX ASSESSMENTS

CONSEQUENCES TO RATEPAYERS AND TAXPAYERS

- There is a duality of purpose. The fair disbursement of Town, County and State property tax burden sharing no longer exists.
- More frequent litigation for abatements.
- Higher customer utility rates for more frequent rate cases more than offsets any lag in collection of higher annual property taxes by the utility.

New Hampshire Property Tax

Property Tax Increase vs. Consumer Price Index



NH PROPERTY TAX ASSESSMENTS

CONSEQUENCES TO RATEPAYERS AND TAXPAYERS

- Incorrect assessed values can skew actual cost inflation in Town budgets. Practice is inequitable at the very least.
- Some NH towns are actually exporting their tax burden to other NH towns through utility pass-through electric and gas service rates.
- Current system is not fair and equitable and hardly understandable.
- Having no standards is counter-intuitive to regulation.

NH PROPERTY TAX ASSESSMENTS

WHAT IS NEEDED?

- Central oversight needed in order to achieve equity in NH.
- Manuals which instruct assessors in standards for utilizing cost methods to arrive at utility property valuations.
- A centralized appeal process.
- Sanity to be restored to NH utility property tax methods.

NH PROPERTY TAX ASSESSMENTS

WHAT IS NEEDED?

- Utilities need predictable, understandable property tax valuations to use in utility ratemaking so property tax burden is shared equitably and fairly among its customers.
- Unfair and disparate property valuation treatments can cause a utility's rates to increase for uneconomic reasons and that hurts efforts to attract new businesses and residents to NH.

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Concluding Comments

- Utilities need assessing standards that are consistently applied from one town to the next, on a state-wide basis
- The DRA Appraisals help to promote consistency because the DRA uses the same appraisal standards on a state-wide basis
- ASB's charge is to promote consistent standards and practices for property tax valuation across the state
- The ASB has done this for some types of property but not utility property
- The time has come for the ASB and/or the DRA to institute statewide standards for utility appraisal

QUESTIONS ?

Open Discussion