MINUTES OF THE
ASSESSING STANDARDS BOARD

Approved as Written

DATE:  June 23, 2017            TIME:  9:30 a.m.

LOCATION:  Legislative Office Building – Room 303, 33 North State Street, Concord, NH

BOARD MEMBERS:

Senator James Gray                             Eric Stohl, Municipal Official, < 3,000 ~ Excused
Senator Bob Guida ~ Excused                    Robert Gagne, NHA AO, At-Large Member
Representative Peter Schmidt ~ Excused          Rick Vincent, NHA AO, City Official
Representative Mark Proulx ~ Excused            Loren Martin, Assessing Official, < 3,000 ~ Excused
Betsey Patten, Public Member, Chair            Marti Noel, NHA AO, Towns > 3,000 ~ Excused
Stephan Hamilton, NH DRA                       Len Gerzon, Public Member
Jim Wheeler, Municipal Official, City ~ Excused Thomas Thomson, Public Member
Paul Brown, Municipal Official, Towns >3,000

MEMBERS of the PUBLIC:

Tressa Northrop, Unitil                        Jon Duhamel, Nashua
Jonathan Giegerich, Unitil                    Scott Bartlett, Goffstown
Scott Dickman, NHDRA                          Karen Hanks, NHEC
Brenda Inman, NHEC                            George Hildum
Ellen Scarponi, Fair Point                    Tom Hughes, BTLA
Michael Licata, Liberty Utilities             Cordell Johnston, NHMA
Jim Michaud, Hudson                           James Banner, Liberty Utilities
Cynthia Troutier, Liberty Utilities            Tisha Sanderson, Liberty Utilities
Lan Pham, Liberty Utilities                   Sue Golden, Concord
Joe Devarenne, Concord                        Kristen McAllister, Tri-Town
Teresa Rosenberger, Devine Millimet

Chair Patten opened the meeting at 9:30 a.m. and introductions by the members of the board followed. The meeting began without a quorum of the board. A quorum was met 9:42 a.m.

Minutes

No vote was taken at this meeting.

Brian Fogg, Utility Valuation Presentation

Mr. Fogg first indicated a handout of his qualifications was available. He explained that due to current litigation, the following presentation will include research and studies resulting from, or as part of, a 2012 valuation. The information showing market and depreciation studies represent the same types of studies that are done for 2016 and from those studies he will explain what is collected from that information and how.
The Chester Report that includes the valuations of NH Electric Co-op (NHEC) and Public Service of NH (PSNH) dba Eversource will be discussed. First, Mr. Fogg clarified a perceived misconception that they conclude the highest and best use of these properties to be stand-alone electric distribution properties confined within a specific municipality. They do value the property within a municipality however the highest and best use conclusion is not only that stand-alone electric distribution property; it is based on a market analysis of potential likely buyers for both regulated and non-regulated utilities such as municipal electric utilities (munis) and co-ops and by how the property is currently utilized. To the extent the property is being utilized as a regulated utility or as a cooperative; those properties are being valued as part of the larger system and are reflected in the analysis of both the sales comparison and income approaches. He added the Supreme Court recently affirmed a BTLA decision concluding this was an appropriate method to determine highest and best use within the confines of NH property tax law.

Mr. Hamilton stated the NHEC property is being utilized in 114 communities and PSNH in 219 communities. He asked Mr. Fogg if they are identifying the highest and best use as integrated into those systems without limitations to the physical municipal boundary or if they are limiting it to the physical boundary. Mr. Fogg responded there are individual pieces of utility assets in the state that are broken out and segmented from the parent company and isolated by meter points. It is not about breaking off a piece of a system and having it function on its own; all parts and pieces of the system exist. It is about how the electricity moves through the various substations and meter points that determine the amount of power and who is providing the power in that particular town both on a transmission and a distribution side. The highest and best use is determined by how the property is currently being utilized and likely buyers of regulated, cooperative and municipal properties help them determine that in their process.

Mr. Fogg listed the approaches used in the determination of a utility value: sales comparison, a reproduction cost new less depreciation (RCNLD); income approach for regulated utilities; a second income approach for publicly owned utilities such as a muni or co-op; and net book and rate base. He listed information that comes to them from the utility companies: Federal Energy Regulatory Commission (FERC) number; year of installation; original cost; accumulated depreciation; and net book. He added the net book is coming to them from the utility companies as the value. Also included in the asset reports are original year of construction, original cost, accumulated depreciation; as well as property that is in service with a $0 book value. As an example, PSNH reports $940 million of property that is in service in NH at $0 book value. This is 100% correct for utilities; it is what they are required to do. As an example, a pole that is 70 years old has a $0 book value and power still flows through that pole providing reliable electricity. The continuous electricity flowing through that pole represents cash flow (payments made by ratepayers) to the utility which is valued in the income approach and therefore contributing value to the company.

Cost Approach

Mr. Fogg stated the first analysis is the cost approach and the first step in that process is the development of the separately stated land value as required by USPAP. He explained the unique situation found in Chester and about a dozen other communities where a company owns rights-of-way in fee or as easements or in some cases they own both. In Chester, the book value of the rights-of-way owned in fee is $125,000 and through their valuation methodology they recommend an assessment of about $1.3 million; the net book is about 10% of the fair market value of those easements.

A discussion ensued about land at fair market value versus book value. Mr. Fogg stated in the cost approach they are tasked by USPAP to value the land at current market value and understanding the argument that if you can’t earn on it then it has no more value than book value; he would argue the $0 book value property should not be taxed at $0 value. He gave an example of two similar parcels of land; one was purchased in 1973 at $895 and the other in 2013 at $467,000; and for property tax purposes, the net book value does not represent the market value for the respective properties.
Mr. Fogg explained their process of measuring and listing a property, understanding where the rights-of-way are, picking up new property and detailing how it relates to the system whether it is distribution or regional transmission property, site inspections, taking photographs and searching records. This process is done in each of the communities they work in. Relative to the rights-of-way, they use the tax maps to verify that the utility is using them; they measure them and then apply their methodology for valuing them.

**Fee Simple**

He explained an example of the total tabulation of map and lot numbers that PSNH owns in fee in Chester. They complete a separate analysis of the fee simple land using the lowest backland acreage value based on their land schedule; in Chester, the lowest backland value is $2,500. The next piece goes to the regulated component of that piece of land which is fair market value. There is an acquisition cost which includes about 30 items that FERC allows a company to book against the land that includes surveying, engineering and other related costs (a list is included in the Chester Report). That number, based on their working studies of construction costs of high-voltage transmission lines, is calculated to approximately $2,500 per acre. The fair market value for the .76 piece of land is $3,800.

Example:

- **Land Value** - Acreage multiplied by Lowest Backland Value
  - .76 acres (x) $2,500 = $1,900

- **Acquisition Cost** - Acquisition Cost multiplied by Lowest Backland Value
  - $2,500 (x) .76 acres = $1,900

- **Fair Market Value** - Land Value plus Acquisition Cost
  - $1,900 (+) $1,900 = $3,800

Mr. Gagne verified the $2,500 acquisition cost would be a constant in every town. Mr. Fogg stated it would. He added they know that is a conservative number through conversations with other folks across the country where typically the rights-of-way are selling for three times fee; but from a mass appraisal standpoint, they feel the lowest backland value is representative of what the fee should be across the corridor in the first instance.

**Easements**

The next step is to identify the acres that are assumed in easements. The difference between the easements and the fee is that the company doesn’t own the entire bundle of rights for that land and a factor of 70% is used to represent the easement and 30% is attributed to the underlying owner. In Chester there is 107 acres and the same $2,500 is used. We take 70% of the $2,500; then multiply that value times the acreage (107); and then add the $2,500 acquisition cost.

Example:

- **Acreage Value** - Lowest Backland Value multiplied by 70%
  - $2,500 (x) .70 = $1,750

- **Total Land Value** – Acreage Value multiplied by Total Acres
  - $1,750 (x) 107 acres = $187,250

- **Fair Market Value** – Total Land Value plus Acquisition Cost
  - $187,250 (+) $2,500 = $190,250
Useful Life and Depreciation

Mr. Fogg stated understanding useful life and how it is applied to depreciation is a very important component of the process. No two utilities in NH or the region have the same estimated service life. For example in Bow, where both Unitil and PSNH exist, each company uses different service lives for their distribution poles. For consistency, they use a common depreciation standard, the same used for other neighborhoods of property classes, by using the actual useful lives which they believe to be on a proportional level utility-by-utility within the confines of that particular town. One other issue is that estimated service lives change; they move up or down over time for different property.

A brief discussion took place to clarify how depreciation is determined and by whom, the PUC or the company. Studies of depreciation are submitted to the PUC for ratemaking cases and in many cases the PUC does mandate depreciation rates to the company. Mr. Fogg stated his point was that the estimated service lives are not constant even though there is little difference in the property and that it is the structure of economics of the operation for a particular utility that derives those lives; not the actual useful life, for example, of a pole.

Chairman Patten asked if there were standards for pole lives. Mr. Fogg stated there is a process by which each utility studies the lives of their property; what they estimate the remaining lives to be; and what they estimate the new property to be worth, however there is no single standard for determining the life of a pole. Mr. Hildum added there are depreciation studies that have been done independently to establish useful lives. Mr. Fogg agreed and stated part of their work is to determine what the useful lives would be. There is also a distinction in appraisal theory about the use of an economic life versus a useful life and how to calculate depreciation off of that. He continued they use the useful life and the chronological age of the property which they feel is a better representation of the physical depreciation being measured for appraisal purposes. They do not use an economic life because they feel it resembles a utility’s estimated service life which uses an effective age as the determiner of the amount of depreciation which is difficult to determine.

Mr. Fogg presented a study they completed that shows the oldest poles: 89 years old in Bridgewater; 78 years old in Hopkinton and Washington. At the time of the study, the estimated service life used by PSNH was 42 years. They do not dispute the purpose of an estimated service life but do not feel that it is representative of the physical depreciation of the pole. They think of the 42 years as the average estimated service life, as reported in FERC, because some are newer and some older and some are retired and therefore there are a lot that stay in service well beyond the estimated service life.

Mr. Giegerich stated from a utility standpoint once a pole is fully depreciated, even though it is still generating electric supply; the money from ratepayers for their electricity does not end up with the company, it goes to the supplier. That fully depreciated pole has zero value to the utility company because it doesn’t change the rates and when that pole is sold, it would have zero value to the purchaser. Mr. Fogg stated they are talking about measuring cash flows and physical depreciation. In his opinion, it is disingenuous to say those 70 year old poles that are providing 100% reliability are worth zero dollars from a physical depreciation standpoint. Therefore, they recognize that physical depreciation in the cost approach. For the FERC Account 364 wood poles, they use a life with an estimation of physical depreciation of 60 years.

Mr. Fogg continued, the other component of the estimation of physical depreciation they use in their RCNLD analysis is a floor; a maximum amount of depreciation for which they use 20%. A property that reaches 20% is still functioning at 100% reliability. He stated two points; the first, there are several utilities that we have agreed to establish an RCNLD; negotiated the lives and negotiated the floor, typically between 20-30% and once you reach this point, it does not go any lower. There is a misconception about the 20% floor; it is not based on the original cost, but the 80% max physical depreciation is based on the reproduction cost new (RCN) so if the indices point to a 5% increase from one year to the next; that RCN is going to grow and that depreciation is calculated off that RCN so you are going to stay at the 20% floor. So it is based on the RCN as prescribed in the
new development of property. Second, the 60 year property reaches the 20% floor in about 47 years so the straight line to 60 would break and flatten at 47 years until that pole is taken out of the ground and replaced with a new one at 100% of original cost.

They compare the data provided by the utility company to the continuing property record; for example PSNH’s transmission poles and fixtures in which PSNH has provided the FERC account, year of installation and specific original cost data. From this data we develop a trend factor from the Handy Whitman indices. As a side note, Handy Whitman is a utility index of costs. Its purpose is to bring current dollars to old utility costs, which is what this process is doing. The indices may go up or down and does take about a year for such a reflection to happen. Mr. Fogg stated he has not seen an appraisal from a utility appraiser that did not use this index as a measure of adjusting old costs to new.

For the poles in this example, we used a 75 year life. When we estimate the age of a pole we minus one year for two reasons; the first, we believe the first year of installation would not experience any depreciation and secondly, we do not trend that first year.

Example:

**Age of Pole**
- Original Cost Year (Installation) is 1949
- Year of report is 2016
  - $2016 – 1949 = 67 – 1 = 66 years
- Original Cost of Pole is $1,722.73
- Handy Whitman Factor is 20.72
- Reproduction Cost New (RCN)
  - (OC) $1,722.73 (x) (HWF) 20.72 = $35,695 (RCN)
- Depreciation to Good is 20% Floor
- Reproduction Cost New Less IPD (Incurable Physical Depreciation which means 20% of the RCN)
  - $35,695 (x) .20 = $7,139

This process is done for every line provided to us by PSNH; for every town for this asset. From here, they develop a summary of all those accounts which result in a total original cost that will match what PSNH provided and a total trended cost which is the total original cost brought to current dollars; this is the reproduction cost new less depreciation (RCNLD) for those components that are above the line.

There are some properties where a year of installation is not provided but the original cost is. For these assets, a weighted escalator adjustment from Handy Whitman is used based on all the other property in that community. In this instance a factor of 2.18 was used to reflect what we believe a lot of the newer property is worth relative to the rest of the property in that community; that property is brought to RCN value. From that adjusted RCN, an aggregate depreciation is developed applying only to this particular property.

The next step is to look at property that was installed in the year prior to the tax year that did not get classified by the utility that would be above the line; this is known as construction work in progress (CWIP). Instead of April 1 being the reporting date; December 31 of the prior year is used for utility companies. In Chester, $50,000 represents CWIP. In most cases, the utility classifies this property in the next year and once classified, it shows up in the respective FERC account(s). The installation year and net book is also tracked through the continuing property cards; the net book, for CWIP in the first year will essentially be the same as the original
There are several significant differences between developing the RCN for PSNH and NHEC. NH Electric Co-op does not have to conform to FERC reporting and instead use cost average mass accounting which means they use averages to determine value. The original cost reported to a town represents what NHEC believes to be the original cost across the company however it has almost no relationship to the original cost of that property in a particular town. For example, a town with a subdivision is going to have a lot more new property on a proportional basis to any other town in the system but every pole will be valued the same based on the average mass accounting and from a cost approach standpoint this is something we have to understand and deal with. Another difference is in reporting. They do not have to match the FERC requirements and while it has become much more clear; reporting in the past sometimes provided as many as four or five reports of the original cost in the same town; in the same year causing difficulty in trying to match values. This creates a dilemma for an allocation method to allocate value of original cost to an individual town; it is impossible to do because of the average mass accounting method.

Mr. Fogg provided an example of detail from NHEC Account 364, wood poles. The average cost of the pole is $639 which is the same for a pole installed in 1982 and a pole installed in 2016. For the cost approach, they do a quality survey on a town-by-town basis to reflect the conditions in a particular town needed to place a pole in the ground. For a 74-year-old pole with a 60 year life; the same used for PSNH for the same pole; our analysis of the RCN becomes $2,456. This aggregate RCN is calculated in Excel using RSMeans. The consistency for the depreciation analysis between two companies within the same taxing jurisdiction comes by using the 80% maximum depreciation and 20% floor, which brings the cost of the pole to $491. Our goal is to represent the costs in each specific taxing jurisdiction the same as a value of a new garage would be. A brief discussion followed about the costs considered from the RSMeans standpoint; the adjustment for location, which involves some judgment, and the assumptions that have to be made. This was described as being similar to an economy of scale adjustment.

One other difference with NHEC is there are open and closed work orders that have not been classified; this is represented similarly to the CWIP discussed with PSNH. In 2015, NHEC installed almost $1.5 million of new property in Chester. This was a reval year and this property was picked up. When property is added, it is not always new property. In many cases, property is retired and new property is added and for PSNH, this would be reflected in the rate base and because of this, new property may or may not be able to be recognized in a town because it is intermingled with all the other property in that town. It is, however, recognized here on a one-to-one basis. Mr. Fogg clarified this is similar to CWIP and if it is above the line (has been classified), it is not here. An open or closed work order is not on the continuing property record and shows up below the line for their property and is only represented once. A brief discussion took place about NHEC’s work orders and how they are reported to the appraisal company.

This process is completed for both utilities, or however many utilities may be in a town, and the cost approach for NHEC in this case is $9.8 million before the application of economic obsolescence and $39.4 million for PSNH who has miles of high-voltage electric lines and two transmission substations in Chester and is a hub for the regional transmission of renewable electric distribution systems.

Sales Comparison Approach

In the sales comparison analysis, they are careful to make sure they are matching the same practices and methodology from the comparable sales as the subject property. Mr. Fogg restated the value of the Supreme Court’s understanding that the PSNH purchase of Connecticut Valley Electric was 3.9 times net book and the relationship between the sales comparison and income approaches. He added there is an interpretation of Sansoucy’s values as being two times the net book and “out of whack” from everyone else. It needs to be understood that the amount of land, how new/old the property is and how net book got to be where it is in the
first place has to be determined in every community. They do not believe net book is the driver of value and a value that equals net book is coincidental to that value.

Mr. Giegerich asked if the full details of the sale, such as unregulated assets or old power purchase agreements that have been bought and recovered from the ratepayers, are considered in their analysis. Mr. Fogg responded it depends on the metric you are looking for. He explained they have an MBA who works full-time on extracting consistent multiples from the sales that are comparable to the subject property.

After calculating the indicated value by the sales comparison approach, they determine a sale price per customer. They receive a reported number of customers for each town from NHEC and more recently from PSNH.

*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

- EBITDA per customer (the net income per customer)
  - $350 was determined based on appraisal judgment
- Sale Price to EBITDA – (a multiple)
  - Selected 10.1 (for a regulated buyer)
- Implied Capitalization Rate
  - Selected 10% (for a regulated buyer)

Calculation for NHEC

\[ 955 \text{ [# Customers]} \times 350 \text{ [EBITDA]} = 334,250 \text{ [Imputed EBITDA]} \div 10 \text{ [Cap Rate]} = 3,342,500 \text{ [Indicated Value]} \]

Calculation for PSNH

\[ 1012 \text{ [# Customers]} \times 350 \text{ [EBITDA]} = 354,200 \text{ [Imputed EBITDA]} \div 10 \text{ [Cap Rate]} = 3,542,000 \text{ [Indicated Value]} \]

Previously, PSNH’s RCN was calculated to be $39+/-$ million. In the example above, PSNH’s value is based on the distribution property in Chester that supplies 1,012 customers. This revenue has no relationship to the other transmission property in the town that serves the region.

Income Capitalization Approach

The following information represents a 2012 study. The next step is to look for debt to equity structures, EBITDA as a percent of income and debt rates. The Public Utilities Commission (PUC) sets a target of a 50/50 debt/equity structure in most rate cases in NH.

Mr. Fogg stated they look to see what the company does relative to EBITDA as a percent of revenue, or in this case, expenses as a percent of revenue. In this case it is close to 30% for a regulated utility (page 25 of handout), and the assumption was made in this case that 30% of the revenue is EBITDA. For debt rate, the example is pretty even at 6%, and for that particular appraisal 6% was used because that had a relationship the NH utilities, in particular PSNH, and also fell within the range of other utilities. From this information, a discounted cash flow (DCF) will be developed. This first analysis is a weighted average cost of capital based on these inputs and with PNSH’s allowed return on equity develops a pre-tax discount rate. This same process is done for a non-regulated buyer.

Then a discounted cash flow (DCF) is developed from which an implied capitalization rate is extracted as a way to identify from the market derived information in the DCF a cap rate that is otherwise difficult to recognize in the market on a town-by-town basis. The cap rate for a co-op or muni buyer is implicitly lower than a regulated buyer.
The next step is integrating the revenue: NHEC reported $1.8 million and PSNH $1.6 million. As a side note, when EBITDA is applied as a percent, one of the ways to determine whether it is a good number or not is to see how the community of Chester, in this case, compares to the company as a whole. To get that metric, we determine a ratio of residential ratepayers versus other ratepayers. For PSNH the ratio is 85/15 residential to other ratepayers; for NHEC it was very similar. So if there is a community base and it is comprised by the rate schedule for that town; and the total number of customers for the Co-op is 85% of the total in Chester; the same for PSNH. If this were not true, an adjustment in the analysis would be needed to reflect the higher number of residential customers and a lower amount of EBITDA percent of revenue assumed. If it were more industrial customers, the 30% would remain but it would be known the EBITDA is a bit higher.

Calculation for NHEC for regulated buyer

\[ \text{Reported Revenue} \times 30\% \times \text{EBITDA as \% of Revenue} = \text{Imputed EBITDA} \]

\[ \text{Imputed EBITDA} \times \text{Implied Cap Rate} = \text{Sales Approach Indicated Value} \]

Calculation for PSNH for regulated buyer

\[ \text{Reported Revenue} \times 30\% \times \text{EBITDA as \% of Revenue} = \text{Imputed EBITDA} \]

\[ \text{Imputed EBITDA} \times \text{Implied Cap Rate} = \text{Sales Approach Indicated Value} \]

Determining Economic Obsolescence

NHEC in Chester

[1] Cost Approach $9,883,800
[2] Sales Approach $3,342,500
Income Approach
  • [3] Buyer 1 $5,011,192
  • [4] Buyer 2 $6,124,790

Average of (4) Approaches to Value

\[ \text{Average} = \frac{9,883,800 + 3,342,500 + 5,011,192 + 6,124,790}{4} = 24,362,282 \]

$24,362,282 / 4 = $6,090,571

[5] Reconciled Market Value

\[ 9,883,800 - 3,793,229 = 6,090,571 \]


\[ 5,878,770 \]

As previously stated, for the cost approach, the land must be stated separately. For the sales and both the income approaches, the land is included in the purchase price. The assumption is if we were to reconcile at the $9.8 million; we would add the land because that is the cost approach methodology; three of the four approaches have land associated with them and actually deduct the use of the public rights-of-way as economic obsolescence.

Reconciled Value

Summary

NHEC Total Recommended Assessment

- [1] Improvement RCNLD $9,883,800
- [2] Economic Depreciation $4,005,000
- [3] Recommended Land and Land Rights $115,800
- [4] Public Use ROWs $211,800
- [5] Total Recommended Assessment $6,206,400

1] $9,883,800 (-) [2] $4,005,000 = $5,878,800 Total Market Value of Improvements

$5,878,800 (x) 1.0 (EQ Ratio of 100%) = $5,878,800 Recommended Assessed Improvements


PSNH

PSNH’s property is valued differently than NHEC due to the transmission property. This property is considered a special purpose property and does not have economic obsolescence associated because (1) if destroyed, it is mandated to be replaced and (2) they do not believe economic obsolescence is associated with any transmission property and because it is a complicated process to determine, no utility company has been able to provide to information that explains how it exists.

For PSNH, the distribution assets totaling $6,133,108, which are attributed to the 1,012 customers, is deducted from the RCNLD and the revenue reported only relates to those properties.

Transmission RCNLD by Cost Approach $27,638,104

[1] Cost Approach (Distribution) $6,133,108
[2] Sales Approach (Distribution) $3,542,000

Income Approach
- [3] Buyer 1 (Distribution) $4,530,656
- [4] Buyer 2 (Distribution) $5,537,468

Average of (4) Approaches to Value


$27,638,104 (+) [5] $4,935,808 = $32,573,912 Reconciled Market Value of Transmission and Distribution

Reconciled Value

Summary

PSNH Total Recommended Assessment [Page 28]

- [1] Improvement RCNLD $39,449,000
- [2] Economic Depreciation $1,413,400
- [3] Recommended Land and Land Rights $1,589,100
- [4] Public Use ROWs $216,100
- [5] Total Recommended Assessment $39,840,800


$38,035,600 (x) 1.0 (EQ Ratio of 100%) = $38,035,600 Recommended Assessed Improvements


Discussion

Mr. Dickman asked how the reliance on EBITDA is reconciled as it is a non-general appraisal principle (GAP) and the inability to verify the different utilization methods of EBITDA by the various utilities. Mr. Fogg stated they use financials from SEC reporting; they reconstruct the financials and extract EBITDA in identical fashion for every sale so all the same expenses and revenues are used in the EBITDA. The hallmark has to be the consistent testing of subject properties against the comparable sales and that is what is happening in our comparison of sales as well as in the relationship to other utilities.

Ms. Scarponi asked in the use of the different approaches, why wasn’t the reconciled value used minus the economic obsolescence and public ROWs as the market value. Mr. Fogg replied that would be double counting the economic obsolescence because the sales and the income approaches imply the economic obsolescence therefore it is the cost approach number that needs to be adjusted by the economic obsolescence. Ms. Scarponi asked if the only use of the market and sales approaches was to determine economic obsolescence and apply it against the RCNLD. Mr. Fogg stated in general that was the purpose of those three approaches. He added there was a case back in the 1990s where a judge determined there must be implicit economic obsolescence in a property and he thought 10% might be the number that was determined to be deducted from the RCNLD. He added now they measure it on a town-by-town basis.

Mr. Hamilton asked where the adjustment for regulation was in their calculation. Mr. Fogg stated economic obsolescence is measured in this industry against other industry participants and market sales indicate a certain amount of economic obsolescence; this is also reflected in the sale price of a property. Mr. Hamilton asked how they adjust their value estimate for the fact that this property is inseverable from a larger unit. Mr. Fogg disagreed it is inseverable. He stated their assumption is that the substations and meter points are in place and everything would remain the same if PSNH took over another service market. In Columbia for example, the system is 100% fragmented from the Co-op and its power comes through PSNH lines. When a power purchase agreement is created from whomever you are purchasing power from, changing utility owners in Columbia, for example is as simple as changing the meter at the substation or meter point.

Mr. Fogg continued, it is possible for Chester to purchase the property within its borders and from a cost approach standpoint, we are saying the moving of meter points in Chester would make little if any impact on the cost approach value. As far as regulation, it is not going to happen overnight and a certain exposure time would be expected, I think Skip estimated that it took 1-2 years for the Connecticut Valley Electric sale. That is how we see the perspective market to work using an exposure time of 1-2 years and that exposure time is intended to account for those regulatory influences.
Mr. Bartlett asked for clarification that column E is reflecting the assumption the property would be sold to a municipal so in that instance, you are not considering regulation. Mr. Fogg stated in one respect that is correct; that is why the cap rate would be lower and we are recognizing that in the cap rates that are implicitly found in the sales and market approaches. Mr. Bartlett followed up, and in columns C and D, you are considering regulation because those sales are of regulated utility companies and the income approach is done for regulated utility companies. Mr. Fogg stated that was exactly what he was trying to say.

Mr. Hamilton asked if the results in the columns were averages. Mr. Fogg stated they are averages and all four cells are given equal weight. Mr. Hamilton added he has never seen a municipality purchase a small part of an electric distribution system within their borders and does not understand how a mirror could be constructed to reflect the market activity of this type of sale. Mr. Fogg responded that he will check to see if he can share their national sales data to be able to fully respond to that. He added that there has been a lot of discussion insinuating that the unit method is nationally the preferred method to value utility property however through their studies of every state; they have not found a statute that requires the unit method to value utility property.

A brief discussion followed about the history of appraising utility property and the DRA’s past and present role. Chairman Patten reaffirmed the process the board was undertaking to provide an understanding of the current assessing practices for the utilities and the legislature’s task. Mr. Thomson stated his understanding is that the assessing practices are different but the results are not fair and equitable. Chairman Patten replied that is why the board is hearing from the appraisers, to bring the information to the legislature so they can determine a formula or let this board fulfill its charge. The courts have stated the differences are troubling so hopefully this process will provide a way to do something about it. Mr. Thomson requested the Chair allow the public members the opportunity to say who they are and who they are representing.

Mr. Fogg added due process is available to the taxpayers; a process that has been exercised and worked through many times. In his opinion, the equalization and the determination of fair market value should be correct and proportional within a jurisdiction and that is the challenge of local assessors everywhere. He added that, to his knowledge, there is no statute that requires municipalities to apply state-wide proportionality for any property taxpayer. Mr. Hamilton responded that describes the heart of the problem. The same fairness for those taxpayers in one jurisdiction should be shared by taxpayers who share multiple jurisdictions and while he agreed that may not be specifically addressed in statute; he believes that is right. Chairman Patten concluded that is the issue and the board has heard a lot of information and now needs to move forward.

Public Attendees

Tressa Northrup, Manager of Utility Accounting at Unitil; Ellen Scarponi, FairPoint Communications; Brenda Inman, NHEC, Karen Hanks, NHEC, Scott Bartlett, Assessor in Town of Goffstown, Joe Devarenne, City of Concord, Sue Golden, Concord, Lan Pham, Liberty Utilities, Tisha Sanderson, Liberty Utilities, Cynthia Troutier, Liberty Utilities, James Barner, Liberty Utilities, Jon Duhamel, City of Nashua, Jim Michaud, Town of Hudson, Michael Licata, Liberty Utilities, Cordell Johnston, NH Municipal Association, Scott Dickman, DRA, Tom Hughes, Board of Tax and Land Appeals, Kris McAllister, Tri-Town Assessing, Teresa Rosenberger, Pennichuck Water Company, NH Electric Co-op, All the landline telephone Companies and Wireless, and Jonathan Giegerich, Tax Manager at Unitil. Chairman Patten stated George Hildum was also in attendance and Brian Fogg was the presenter.

Other Business

Mr. Vincent inquired to Ms. Northrup about the information pertaining to the building sold for eminent domain. She stated she is still working on getting the information which is in offsite storage.

Chairman Patten stated the Governor has signed House Bill 323 which allows the DRA to review all assessing
Chairman Patten stated there will be no meeting in July as the Speaker of the House has requested committee’s not meet until late August. She indicated she would be getting together with Mr. Gagne and Mr. Hamilton to review the minutes and fill out the matrix which will be provided to the full committee prior to the next meeting for comment.

One other note, there were two letters received by the board, one from Mr. Bartlett and the other from Mr. Giegerich pertaining to Unitil’s presentation. Mr. Bartlett explained he met with Mr. Giegerich after receiving his response letter. They discussed Mr. Bartlett’s concerns that the number presented by Mr. Giegerich were not his numbers and that it was clarified they were used just as an example for the presentation. Mr. Bartlett wanted to make sure that it was understood that Mr. Giegerich’s example was not a legitimate approach and that a valuation could not be developed using that simplified approach.

A discussion ensued about the matrix and the information being place in it. There was concern expressed that opinions would be used rather than the actual methods presented. Chairman Patten stated and restated that would not be the case. The purpose of the Chair, Mr. Gagne and Mr. Hamilton meeting was to review the minutes, put the information received into the matrix to get a head start on the discussion. Once they had completed that, it would be distributed to the other members of the board for input, additions, subtractions, etc. before the next meeting. Chairman Patten stated the agenda for the next meeting would be the matrix and the public would have an opportunity to provide input then.

Next meeting

Friday, August 18, 2017, 9:30 a.m. location TBD.

Mr. Gagne motioned to adjourn. Mr. Vincent seconded.

Chair Patten adjourned the meeting at 12:30 p.m.

Respectfully submitted,
Stephanie Derosier

Municipal and Property Division
NH Department of Revenue Administration

All meetings are recorded and are available upon request.

Documentation relative to the Assessing Standards Board may be submitted, requested or reviewed by:

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