Ms. Patten welcomed those in attendance.

Mr. Hamilton summarized the last meeting where the committee discussed the different cost approaches and how they might accomplish the following: create an approach that prevents the value of any property from going to $0; finding a technique that focuses on the appraisal of the property in the community as a one-step process of valuation and allocation; create a process more calculated and less reliant on opinion; find a manner which would not damage either the municipalities or the utility rate payers by having immediate shifts in the tax burden and use a phase-in or period of time for the result to minimize potential significant changes.

Throughout this process, the subcommittee has discussed replacement cost, reproduction cost, net book value and original cost and the potential impacts of each. While not focusing on the impact of individual communities, it was suggested to be mindful of what the result would mean to some of the communities. The committee agreed to the concept that the assessed value in a town should be greater than net book value (which would represent the minimum value); the committee was not in full agreement with the concept the assessed value should be less than or equal to the original cost.

Mr. Hamilton distributed spreadsheets he prepared with information received from Unitil and NHEC for the committee to review and proposed the committee begin to think about what it would mean to rely on original cost as a proxy for value, the net book value or a combination or weighting of the two.

Mr. Bartlett explained he worked with the information received, sorting, arraying and calculating and through that exercise was able to confirm that not only were there significant ranges between assessed values and the DRA values, there was a huge range comparing assessed values to net book value and original cost; in particular with NHEC, which he felt may be due in part to some of the difficulty NHEC has presenting their data, but both utilities, NHEC and Unitil, have a range. When comparing the totals, Unitil’s total assessment, unadjusted by the equalization ratio, was 23% greater than net book value and Northern Utilities’ was 10-20% greater than net book value, both within the range he would expect. He added the information begins to break down when sorting; seeing the distribution of assessed values between communities.

A general discussion followed about some of the initial thoughts about the data received from Unitil and NHEC.
Mr. Bartlett offered some thoughts about using a range to compare a value to versus a simple approach. He added no matter what value is determined, an appraiser will always have to justify it. Mr. Gagne felt that would not get rid of the argument about inconsistencies or if comparing a value to a range to determine if it is reasonable would be acceptable, but he did agree it would allow the local jurisdictions to do their job. Mr. Bartlett reiterated the assessor would still have to do their job, properly assess the property and justify the value. His concern is towns with older equipment that should be at original cost or a bit more; he is comfortable limiting a value to that but he was not saying the value should be at that upper limit. Mr. Hamilton agreed that is a reasoned method, but it could also make the system more burdensome on the municipalities as many do rely on the DRA allocated value or information from the utilities and the range may create a temptation to focus on the high end of a range. A simple empirical formula will lessen the burden of the legal system imposed on rate payers and tax payers.

Mr. Lessard asked if there would be parameters to justify the value determined between the high and low. Mr. Hamilton replied there could be but that would create a more complex process versus a simpler one. He believes net book value would be the minimum value because that is what the utility can earn a rate of return on. He likes original cost because (1) it defeats the issue of equipment depreciating to a $0 value; it overcomes that full depreciation of the asset without going into every line to determine a floor and; (2) he feels a melding of the two or weighted average would help overcome the problem, when property does fully depreciate in the net book value.

A brief discussion followed about the role of opinion and policy in assessing and the potential challenge of assessing practices on other unique or different types of property.

Mr. Hamilton began the explanation of his spreadsheet. He explained the total original cost for assets in each community was provided for 2016; Unitil provided original cost not including contributions in aid of construction (CIAC) and NHEC provided original cost including CIAC. He continued, some town values were the same as the total original cost and other towns showed a discrepancy between the two numbers; this was the same for net book value. The spreadsheet was created to show how a system requiring the use of 100% of original cost would affect locally assessed values if it were used as a proxy and then to see what would happen if a weighting of original cost and net book value were used.

Mr. Michaud inquired if the assessed value was meant to represent the town’s opinion of market value because it did not appear an equalization factor was applied. Mr. Hamilton stated the assessed values represented was reported on the 2016 MS-1 with a few variances. Mr. Bartlett added he included an equalization ratio in his spreadsheet and stated there was a slight 8 or 9% difference on the total. It was clarified the values reported were for distribution utility properties only.

Mr. Hamilton continued. Through using different percentages, it was found if the weighting were 75% to original cost and 25% to net book value; the calculated value would be very close to the local assessed value. Mr. Bartlett added he believes equalization is important and if 50% of the total original cost were used and 50% of the total net book value; the total calculated value would be the same as the equalized value; however, the result is different when looking at an individual community. If the census is to be revenue neutral for these two utility companies who have provided information, the solution would be 50/50. Mr. Hamilton stated that was not his goal during this exercise and he believes having a theory and concept that works is important. Whether the burden on the utility is higher or lower will probably depend on the utility and may be different from utility to utility.

Mr. Sansoucy expressed concern about the 50/50 weighting for those communities who have not used DRA or book values that will be severely harmed by revenue neutrality.

Mr. Hamilton agreed there will be changes from town-to-town and the committee has discussed implementing the change over a period of years which rather than facing the full impact of the change in one year, would make the change gradually and less burdensome. The formula presented uses two available data points and weighting to
calculate the tax burden for the utility in each of these towns on a slope; a predictable pathway. For the utility, they will know and understand their burden because they will know how the original cost and net book value will change over the transition period.

It was reiterated the Legislature, at this time, is considering 100% reliance on the book value. Discussion followed including the potential impact to more communities if nothing were presented to the Legislature, the questions that may be raised if a blending is suggested, the advantages of the formula, and the perception of the values produced by the formula when the values are equalized and when they are not.

Mr. Gerzon asked where the State will be in their process under RSA 83-F? Mr. Hamilton responded DRA values all utility property for the purposes of applying the tax rate, collecting the 83-F tax as well as equalization. The Equalization subcommittee has met and is looking at moving away from that in the equalization process to using the locally assessed values. The Department will do a unit value for the distribution companies and submit a tax bill based on the single unit values. Ms. Gagne asked if the Equalization subcommittee makes a recommendation to adopt the local assessed values to be used in the equalization process and the full Board passes it; will the DRA continue to allocate? Mr. Hamilton replied no. Once it is no longer used for equalization, the Department will not allocate the 83-F value. Mr. Gagne followed by asking if that happens and nothing changes with regards to the process we are working on, the jurisdictions who use the DRA number will no longer have that to use. Mr. Hamilton stated they would not.

Mr. Michaud suggested providing the Legislature with the information to work with rather than percentages. Mr. Hamilton stated for the bill or an amendment to be drafted at the Office of Legislative Services, a number must be provided. The subcommittee does not have to come up with them and the full ASB may want to recommend the structure of the formula and phase-in and then explain what the different weighting would do. He also suggested that in addition to recommending the formula and transition period that a duty be added in RSA Chapter 74 for the entities to report the factors to the municipalities on an annual basis by a certain date.

Ms. Patten felt the committee needed to make a recommendation for what they feel is reasonable to the full Board and they will determine what they want to recommend. After a brief discussion, Mr. Bartlett motioned to recommend 75% weight to original cost and 25% weight to net book value; the value must be equalized with the previous year equalization ratio unless a revaluation was completed in that year; with a phase-in period of five years. Mr. Hamilton seconded the motion. Mr. Lessard suggested adding “for improvements only” as land would be assessed as is. A brief discussion followed pertaining equalizing the value. Ms. Patten asked if this would result in a market value or if a statement should be made the formula is not based on market value. Mr. Hamilton recommended that RSA 75:1 reflect the valuation of the current use of this specific type of property and reference the statute which will describe the formula.

A discussion followed concerning the deviation from original cost as a ceiling and loss of property value due to weighting. Mr. Sansoucy described original cost as a compromise in the first instance and harmful to many communities because fair market value found by the NH Supreme Court, the BTLA and other courts in New Hampshire in the last 30 years are fundamentally above original cost. He continued there are other elements and benefits of regulation pointed out by the courts that creates a value beyond the book value of a property. To remove original cost as a ceiling from the recommendation he believes is harmful and feels original cost should stay in the debate.

Mr. Wheeler felt Mr. Sansoucy’s point is worth discussing. He added he would like a formula with reason and logic behind it and relates not wanting an opinion to not wanting expertise. Cost methods give expertise, the formula does provide simple but lacks expertise; it is a compromise. Ms. Patten stated using net book value is going to have a negative impact on more communities; original cost and net book value can be understood and used at the local level.
Mr. Dean, representing NHEC, pointed out one of the issues is the question of mass accounting which goes into both original cost and net book value. It does not reflect the age of an asset within a community because it is an average number however with mass average, no property ever depreciates to $0. This process is about treating everyone fairly but, in some measure, it is a trade-off, it may not be exact in some ways as others. Lastly, within the motion, he asked where CIAC was?

Mr. Bartlett stated it was agreed at the previous meeting that CIAC must be included. Mr. Gagne stated it should be included in the motion. Mr. Bartlett revised his motion of 75% to original cost including CIAC and 25% to net book value including CIAC.

Mr. Wheeler reiterated the point that the committee has already made compromises. He agrees the committee should present the formula to the full board and he supports the weighting but would like to study it over the week as it will be discussed at the full Board.

Ms. Patten restated the motion made and amended by Mr. Bartlett; seconded by Mr. Hamilton, to recommend a 75% weight to original cost including CIAC and 25% weight to net book value including CIAC; the value must be equalized with the previous year equalization ratio unless a revaluation was completed in that year; with a phase-in period of five years. No further discussion. Ms. Patten called the motion. Vote was unanimously approved.

Ms. Patten thanked everyone for their time and contribution. Mr. Bartlett and Mr. Hamilton will work together to make a presentation for the full Board. A brief discussion took place about House Bills 324 and 1381.

Minutes

January 12, 2018 - Vote postponed to the next full ASB meeting.

Next Meeting

No meeting scheduled at this time.

Ms. Patten adjourned the meeting at 11:55 a.m.

Respectfully submitted,
Stephanie Derosier
Municipal and Property Division
NH Department of Revenue Administration

All meetings are recorded and available upon request.

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

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