Ms. Patten welcomed those in attendance.

Minutes

January 12, 2018 - Regular Board Meeting

Mr. Gagne motioned to approve the minutes of the January 12, 2018, regular board meeting; Representative Proulx seconded the motion. No discussion. Chair Patten called the motion to approve the minutes of January 12, 2018, regular board meeting as written. All approved.

January 12, 2018 – Equalization Subcommittee Meeting

Representative Proulx motioned to approve the minutes of the January 12, 2018, Equalization subcommittee meeting. Mr. Brown seconded the motion. No discussion. Chair Gagne called the motion to approve the minutes of January 12, 2018, Equalization subcommittee meeting as written. All approved.
Utility Valuation Subcommittee Meetings

Mr. Lessard motioned to approve the minutes of the following Utility Valuation Subcommittee meetings:
- January 12, 2018
- January 19, 2018
- January 26, 2018
- February 1, 2018

Mr. Hamilton seconded the motion. No discussion. Chair Patten called the motion to approve the four sets of minutes as written. No discussion. All approved.

Correspondence

Chair Patten reported a response was received from the DRA Commissioner pertaining to complaints received from Representative Abrami and Eversource that were forwarded by the Board to the Commissioner for review. She read the letter into the record.

Chair Patten read the letter received from Mr. Sansoucy into the record.

A discussion ensued about how information was received by the Board, how it was perceived by the Board as correspondence or complaint, and how it was responded to by the DRA Commissioner as a review and determination. The Board had agreed the correspondence received in January constituted a complaint which was then voted to be forwarded to the commissioner. While the actual vote did not request the Commissioner’s review and determination, it was the intent of that vote. Further discussion will take place relating to this process in the rules subcommittee. A motion was made by Mr. Hamilton to clarify the previous motion on January 12, 2018, which was to refer the complaints to the Commissioner; seconded by Mr. Thomson. Senator Gray did not feel the motion was necessary. The remedy requested was to better describe the process for complaints in future and to understand the rules of the process, which he believes satisfies the remedy requested. Chair Patten called the motion. Motion was approved.

Equalization Subcommittee Update

Mr. Gagne reported the subcommittee met this morning to review recommendations considered at the previous meeting. The committee voted to table the proposed changes until a resolution of House Bill 324 and House Bill 1381 are complete. Therefore, the subcommittee is not bringing anything forward to the full Board to consider.

Utility Valuation Presentation

Chair Patten explained a handout listing 21 principles the subcommittee created for Public Utilities Commission (PUC), regulated distribution utility properties in N.H. The subcommittee members were herself, Bob Edwards, Steve Hamilton, Scott Bartlett, Jim Wheeler, and Joe Lessard; Bob Gagne was present at all meetings along with members of the public. The subcommittee created statements they could all agree on that are reflected in the handout. Mr. Hamilton and Mr. Bartlett presented the supporting information leading up to the recommendation.

Mr. Hamilton began by reviewing the subcommittee’s work. He stated the 21 principles were critical to the foundation and understanding of how the subcommittee came to agree unanimously on the recommendation. The goal was to simplify the process for assessing regulated, multi-jurisdictional, distribution utility properties; to find a method which would provide enough consistency for the towns to avoid extensive challenges to their assessments and for the utilities to be able to understand the values when they enter into rate cases. The focus was to find a cost basis that did not rely on opinion; which led the subcommittee to base their recommendation on a calculation
based on reportable, known numbers of original cost and net book value. The subcommittee considered the approaches of replacement cost new less depreciation and reproduction cost new less depreciation which includes various estimates that require an opinion for depreciation and obsolescence which result in varying resulting values. The utilities feel the value of their property is limited to the amount of the rate of return that they can earn on the investments made in the property; the net book value. One of the principles the subcommittee agreed on was that no property in the system should depreciate to $0 value; in the net book value, there is property that has depreciated to $0 and that is something the committee wanted to protect against and a solution was sought to include the net book value weighted with another cost.

Mr. Bartlett stated he gave a presentation of the reproduction cost approach he uses to assess utility property in Goffstown which includes adjustments for depreciation and obsolescence; and that he disagrees with the idea that net book value is the value of a property but does believe it is a function of the value and therefore a compromise needed to be considered. During his presentation, a key point was the comparison between his final concluded value and the original cost which were relatively close. In his experience, his values have been relatively close to the original cost which led him to an initial solution and direction to use original cost. While original cost is a viable substitute number, net book value needs to be considered. The question will be what weighting of the two is appropriate. Mr. Bartlett agrees with Mr. Sansoucy that original cost is a compromise and would have agreed to that being the solution, however, while this may not be market value, it is an approximate of and therefore the alternate compromise, 75% weight to original cost and a 25% weight to net book value is being recommended.

Mr. Bartlett continued, NH Electric Co-op (NHEC) and Unitil were supportive in the committee’s effort to find a solution and provided 2016 information for the committee to review including original cost, net book value and assessed value by community. He reviewed the information to see how the assessed values compared to original cost and net book value and one of the things that jumped out at him was the large discrepancies. One principle the committee agreed to was if there was a minimum value; it would be the net book value and there were a significant number of communities assessed below net book value and on the other side, there were many communities assessed higher than original cost. The goal, and what we are trying to do, is make valuation more consistent throughout the State and decrease the number of court cases for both the utilities and municipalities. The key to this solution is that it is only for the PUC regulated, distribution utility properties located in multiple jurisdictions. This does not address generation, high-tension powerlines, or impact land values as the formula considers the improvements only.

Mr. Hamilton explained two handouts that were distributed that include the assessed values, total original costs and total net book values by community for 2016 for NHEC. The first three pages represent the values using the recommended weighting of 75% to original cost and 25% to net book value and compare the local values to the equalized values also known as the market value estimate for the town. This comparison shows both increases and decreases. To provide stability and minimize the impact of a change, the subcommittee recommends a phase-in period of 5-years be included with any recommendation made by the Board to the Legislature. A comparison was also provided for a 25% weighting to original cost and 75% to net book value.

The goal as a committee was not a results-based analysis; we were not looking for a formula that would achieve a certain outcome or value, it was to find a process which could be calculated with known values and figures that eliminated the need for opinions. I think the recommendation that we are making to the ASB is one that works with both pieces of legislation that are pending in the House Ways and Means Committee.

There are two bills dealing with this issue. One is House Bill 324 which establishes a study commission for how this valuation of property should be undertaken and this recommendation would be important for the Ways and Means Committee to include in some way in their bill on the study commission. The other bill pending in the House Bill 1381 which relies only on net book value as a determinant for the local assessed value. This process is unique
having a single calculation that achieves a proxy for a replacement or reproduction cost, it allows each municipality to value the property within their jurisdiction, and importantly values and allocates in one step. Integrating both values is important because it helps to make sure the appropriate allocation occurs and overcomes the effect of net book value going to $0 on some of the assets when they are much older and fully depreciated; original cost does not depreciate and will never go to $0. It achieves the protection of a municipality that might have some older assets relative to others that might have newer assets and provides a way to both allocate and value in a single step.

Another spreadsheet containing information from Unitil was distributed including an illustration of the 5-year transition period or phase-in at 20% each year. In year one, the process would place 20% reliance on the new formula driven value and 80% on a lock base year which would be established in the first year of the transition and then every year after that it would increase the weight placed on the formula value and decrease the weight placed on the base year value. It is a way to make the transition work in a reasonable and predictable way smoothing out values over a period of time and avoiding some disruption.

It was suggested House Bill 324 would be a good place for the formula as there are still questions and details to be considered and worked through and more input is needed from the utilities. The question was asked how the new improvements would be accounted for and valued. Mr. Hamilton felt the formula would include that value as the original cost and net book value will be reported annually by the utilities; it will be the base year that will not change. It was never the intent of the subcommittee to drive the Legislature in any direction; rather to provide information and a recommendation for legislation for the lawmakers to consider. Mr. Michaud requested if the Board does make a motion that it be well qualified so the lawmakers know this is not the end result but rather the beginning.

Mr. Hamilton stated the question has been asked how do we get the necessary data and he stated there is an entire chapter of law on the inventory of property, Chapter 74, which carries with it an existing set of penalties that can be applied to people who do not provide an inventory of property. He believes it would be reasonable part of a recommendation to include a requirement for the utilities to provide an annual inventory for property located within each community including net book value, original cost and contributions in aid of construction (CIAC).

It was mentioned that the subcommittee has not heard from the utilities pertaining to the formula but through hearings and subcommittee meetings, the general message heard has been that they would like to see more consistency and predictability and to make the court cases go away. This formula solves that for the utilities but not necessarily for the municipalities and if the municipalities use this formula properly, that will remove the arguments because it is using known numbers. A request was made to hear comments from the Board members who did not sit on the subcommittee.

Mr. Thomson referenced the meeting held on August 18, 2017, that was attended by Representative Barry, Chairman of the Science, Technology and Energy Committee, who requested information that showed the impact to the towns, state and taxpayers to determine if there was a problem and if one was found, what the Board felt was the best way to solve it. Mr. Thomson, in light of the Bow decision, felt the Board needed to submit a recommendation to the Legislature and submit the information used to come up with the subcommittee’s recommendation to make sure the taxpayers are being treated fairly and equitably.

A brief discussion followed pertaining to the Bow decision, its impact and relationship to this formula, which was agreed it would not have pertained to; if property such as office buildings and other real estate would be included in the assessed value; if a 50/50 weighting had been considered as well as a clarification the 50/50 ratio mentioned in Mr. Sansoucy’s letter which pertained to a 50% weighting on original cost and 50% on reproduction cost new less depreciation and not a 50/50 weighting on original cost and net book value. Pertaining to the Board’s meeting
their charge by the Legislature and fulfilling the request made by Chairman Barry, a couple of board members stated they felt the information provided and the formula being recommended by the subcommittee fulfills both.

Mr. Gerzon commended the subcommittee and others who were involved in the process for their work on this issue and the 21 principles that were created. However, he expressed concern about the recommendation of the formula to the Legislature feeling it was not within the Board’s mission or charge to do so. He feels the Board’s responsibility is to recommend legislation based on assessing practices to ensure fairness, equity, transparency, accountability and uniformity not outcomes. He believes submitting the 21 principles created by the subcommittee would be sufficient and to let the lawmakers determine the outcome from that information. He does not want to see a negative impact to the Board because of a perceived bias or lack of neutrality.

A discussion followed about how the 75/25 recommendation was determined. The weighting is an approach that provides a valuation technique for this complicated property type. A couple of considerations for the weighting were that it takes care of both appreciation and depreciation and provides a protection from property depreciating to $0. If this were to become law, it would be something the courts would uphold rather than have to determine whether it is a representation of a market approach because it will be current use value. The only challenge would be whether the imports were correct.

Pertaining to submitting only the 21 principles to the lawmakers, Mr. Gagne explained those were how the subcommittee determined the blending of the original cost and net book value in the formula and without the formula, the principles alone would not be sufficient for them to develop a reasonable solution. The formula helps reinforce the principles, that the value is greater than net book value and other information points to the predictability and ease of using the formula. Mr. Gerzon suggested the spreadsheets be submitted as they show the outcomes without judgements. The outcomes are to be used by politicians not standards board; the information has been presented; the facts will speak for themselves. He does not think it is good for the longevity and efficacy of this board in the future.

Representative Proulx stated he is not an expert in all the different issues that come before the House and that he appreciates input from experts who give an opinion of what we need to look at and a recommendation. If he does not understand information presented, he will kill it as he would rather pass no law than a bad law. This formula is an effort to provide fairness and equity. He thinks the ASB should provide a recommendation and let the lawmakers decide what to do from there.

Mr. Thomson again referenced the August 18, 2017, meeting which Chairman Barry stated, “we would like to see rough numbers, methods that would work or would not work, a dollar impact, which methods show the lowest assessments, the highest assessments and what characteristics are consistent.” He suggested the board provide the information requested and if they want more information, they will ask for it.

Mr. Hamilton felt it would be unwise for the Board not to provide a clear voice for what we feel will provide a resolution to this 30-year old problem. It is not a perfect solution but it will provide a framework where the disputes will be greatly diminished.

Discussion followed. The Board felt it was important the legislators understand the determination of 75/25 is not to favor any one side but what they feel is the most fair and equitable solution. One of the most important considerations for it is to compensate for property depreciating to $0. Mr. Gerzon added that PSNH used to, and believes they still do, use a self-imposed floor of 80% so none of their property ever depreciates to $0.

Chair Patten stated this is the first time the recommendation has been made public and it is not going to end here as the utilities have not had any input. She felt the Board should move forward and put forth a recommendation.
Mr. Gerzon suggested, before a motion was made, for the Board to submit three weighted options of 75/25, 50/50 and 25/75 along with supporting data and let the lawmakers choose. He added this will maintain the Board’s credibility for the future which is very important to him. Mr. Hamilton disagreed. He felt it would hurt their credibility as a Board if we present a range rather than knowing a number. He felt the Board will maintain their credibility, work and conviction by stating the utility valuation subcommittee examined this issue and came up with a recommendation that the full ASB supported and is now submitting to the House Ways and Means Committee. For reasons found through analysis and the impact of property going to $0, there are legitimate reasons why the 75/25 weighting was unanimously recommended by the subcommittee. Senator Gray suggested the requirement of 100% reliability of the system be stated as well as that affects how long an asset can be in service.

Mr. Wheeler stated the subcommittee’s minutes are available and the reasons for the 75/25 weighting were covered. He added the data received is only a subset of utilities and municipalities, not all of them. He believes there is more work to be done to sufficiently answer Representative Barry’s request.

Mr. Wheeler submitted the following motion: “We move that we communicate the ASB’s support for the study commission of House Bill 324 and provide the work of the utility valuation subcommittee to the commission for consideration. If there is no study commission, the ASB recommends the formula, value = 75% original cost + 25% net book value (plus CIAC); this formula shall only be applied to calculate value for non-FERC, tariffed, water, gas and electric distribution lines, poles and infrastructure, in addition, it should not be used to value land and land rights associated with this distribution infrastructure.” Mr. Gagne seconded the motion. Discussion followed. Mr. Lessard suggested adding times the equalization ratio after (plus CIAC); Mr. Hamilton suggested inserting the works “including CIAC” after “original cost” and after “book value”. Mr. Wheeler explained his reason for supporting the study commission is he believes that is the best solution to continue to work out the remaining details of the formula. Chair Patten suggested two separate articles; one to support the study commission and another for recommend the formula.

After a brief discussion, Mr. Wheeler amended his motion to “The ASB supports the study commission established by House Bill 324.” Mr. Gagne seconded the motion. Additional discussion followed. Chair Patten called the motion. Motion was unanimously approved.

Mr. Hamilton submitted the following motion: “To recommend to the NH General Court that a “use valuation” be determined by a formula adopted in statute for certain utility real estate, and that said use valuation shall be utilized by municipalities to determine the taxable value of real estate under Chapter RSA 72.

That the formula would apply to Utility Property, exclusive of land and land rights, belonging to a Regulated Utility pursuant to Chapter RSA 362, except those utilities exempted by RSA 362:4-c. The formula would apply to the real estate of: Electric Distribution Utilities, Water Distribution Utilities, and Gas Distribution Utilities.

That the Regulated Utilities owning such property be required to file annually an inventory for each municipality in which such property is located the Net Book Value and the Original Cost of such property. As used in this process, the terms Net Book Value and Original Cost will include Contributions in Aid of Construction.

That the formula for valuation of such property be annually determined to be a weighted average of the two reported costs in each municipality in the following manner:

- The reported Net Book Value be weighted 25%
- The reported Original Cost be weighted 75%

That the resulting annual valuation be equalized to the common level of assessment in the community, except in the year of an RSA 75:8-a reappraisal

That the formula be implemented over a five-year period where:

- The base year value is determined to be the most recent year’s local assessed value
• The first year be a weighted average with 20% of that year’s formula and 80% of the base year value
• The second year be a weighted average with 40% of that year’s formula and 60% of the base year value
• The third year be a weighted average with 60% of that year’s formula and 40% of the base year value
• The fourth year be a weighted average with 80% of that year’s formula and 20% of the base year value
• The fifth year being that year’s formula value

That our communication will include our 21 guiding principles as determined by the utility valuation subcommittee and a copy of the example spreadsheets.” Mr. Gagne seconded the motion.

Mr. Gagne suggested moving the last statement under the fourth paragraph. Mr. Hamilton agreed. Mr. Wheeler suggested clarification be added this formula excludes land and land rights. Mr. Hamilton agreed. The amendment of “exclusive of land and land rights” was added to the second paragraph after the word “Property”.

Mr. Gerzon reaffirmed his concern about recommending this formula without a sound basis for the 75/25 weighting however it was important work done by the subcommittee in the spirit of solving a problem and getting a compromise he will support the consensus. Mr. Gagne recommended adding the following information to the spreadsheets before submitting: 75/25, 50/50 and 25/75 data without any editorializing to show the impacts of Representative Barry’s requests and that we are recommending the 75/25. Mr. Gerzon concurred.

Chair Patten called the motion made by Mr. Hamilton as amended. Motion was unanimously approved 12-0.

A brief discussion took place pertaining to the 21 principles created by the subcommittee. The following changes were made:

**Principle 16** – Assessed value in the towns/cities is less than or equal to Original Cost – was deleted and replaced with “Original Cost is a reasonable proxy for replacement/reproduction cost new less depreciation”

**Revised Principle 16:** Original Cost is a reasonable proxy for replacement/reproduction cost new less depreciation

**Principle 18** – A phase in program needs to be considered because the valuations will change – “needs to be” was deleted and replaced with “could”

**Revised Principle 18** - A phase in program could be considered because the valuations will change

Mr. Gagne motioned to adjourn; seconded by Mr. Lessard

**Next Meeting**

Friday, March 9, 2018, at 9:30 a.m. at the LOB – Room 303

Ms. Patten adjourned the meeting at 12:40 p.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:

Telephone: (603) 230-5096  
Facsimile: (603) 230-5947  
Web: [www.revenue.nh.gov](http://www.revenue.nh.gov)  
E-mail: asb@dra.nh.gov

In person at:  
109 Pleasant Street, Concord

In writing to:  
NH Department of Revenue  
Assessing Standards Board  
PO Box 487  
Concord, NH 03302-0487