

HOUSE BILL NO. 838

INTRODUCED BY J. FRENCH

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4 A BILL FOR AN ACT ENTITLED: "AN ACT REVISING THE METHOD OF DETERMINING THE VALUE OF
5 RAILROAD SYSTEMS FOR PROPERTY TAXATION PURPOSES; REQUIRING RAILROADS TO REPORT THE
6 AVERAGE AGRICULTURAL COMMODITY FREIGHT RATE CHARGED BY THE RAILROAD FOR SHIPPERS
7 IN MONTANA FOR THE MOST RECENTLY COMPLETED CALENDAR YEAR AND THE AVERAGE
8 AGRICULTURAL COMMODITY FREIGHT RATE CHARGED BY THE RAILROAD FOR SHIPPERS OUTSIDE
9 OF MONTANA FOR THE MOST RECENTLY COMPLETED CALENDAR YEAR; PROVIDING FOR A
10 VALUATION ADJUSTMENT BASED ON AVERAGE AGRICULTURAL COMMODITY FREIGHT RATES; AND
11 AMENDING SECTIONS 15-23-204 AND 15-23-205, MCA."

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13 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

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15 **Section 1.** Section 15-23-204, MCA, is amended to read:

16 **"15-23-204. Assessment of railroads.** The president, secretary, or managing agent or such other
17 officer as the department of revenue may designate of any corporation and each person or association of persons
18 owning or operating any railroad in more than one county in this state or more than one state must on or before
19 April 15 each year furnish the department a statement signed and sworn to by one of ~~such the~~ officers or by the
20 person or one of the persons forming ~~such the~~ association, showing in detail for the year ending December 31
21 immediately preceding:

22 (1) the whole number of miles of railroad in the state and, where the line is partly out of the state, the
23 whole number of miles ~~without outside of~~ the state and the whole number within the state, owned or operated by
24 ~~such the~~ corporation, person, or association;

25 (2) the value of the roadway, roadbed, and rails of the whole railroad and the value of the same within
26 the state;

27 (3) the width of the right-of-way;

28 (4) the number of each kind of all rolling stock used by ~~such the~~ corporation, person, or association in
29 operating the entire railroad, including the part ~~without outside of~~ the state;

30 (5) the number, kind, and value of rolling stock owned and operated in the state;

1 (6) the number, kind, and value of rolling stock used in the state but not owned by the party making the
2 returns;

3 (7) the number, kind, and value of rolling stock owned but used out of the state, either upon divisions
4 of road operated by the party making the returns or by and upon other railroads;

5 (8) the whole number of sidetracks in each county, including the number of miles of track in each railroad
6 yard in the state;

7 (9) the number of each kind of rolling stock used in operating the entire railroad, including the part
8 ~~without~~ outside of the state, which must include a detailed statement of the number and value ~~thereof~~ of all
9 engines; passenger, mail, express, baggage, freight, and other cars; or property owned or leased by ~~such~~ the
10 corporation, person, or association;

11 (10) the number of sleeping and dining cars not owned by ~~such~~ the corporation, person, or association
12 but used in operating the railroads of ~~such~~ the corporation, person, or association in the state or on the line of
13 the road ~~without~~ outside of the state during each month of the year for which the return is made; and also the
14 number of miles each month the cars have been run or operated within and ~~without~~ outside the state;

15 (11) a description of the road, giving the points of entrance into and the points of exit from each county,
16 with a statement of the number of miles in each county. When a description of the road has once been given, no
17 other annual description ~~thereof~~ is necessary unless the road has been changed. Whenever the road or any
18 portion of the road is advertised to be sold or is sold for taxes, either state or county, no other description is
19 necessary than that given by, and the ~~same~~ description is conclusive upon, the person, corporation, or
20 association giving the description. ~~No~~ An assessment is not invalid ~~on account~~ because of a misdescription of
21 the railroad or the right-of-way for the ~~same~~ railroad. If ~~such~~ the statement is not furnished ~~as above provided~~,
22 the assessment made by the department upon the property of the corporation, person, or association failing to
23 furnish the statement is conclusive and final.

24 (12) the gross earnings of the entire road;

25 (13) the gross earnings of the road within the state and, if the railroad is let to other operators, how much
26 was derived by the lessor as rental;

27 (14) the cost of operating the entire road, exclusive of sinking fund, expenses of land department, and
28 money paid to the United States;

29 (15) net income for ~~such~~ the year and the amount of dividend declared;

30 (16) capital stock authorized;

1 (17) capital stock paid in;
 2 (18) funded debt;
 3 (19) number of shares authorized;
 4 (20) number of shares of stock issued;
 5 (21) number, kind, and total number of miles traveled within the state by railroad cars owned by railroad
 6 car companies; ~~and~~
 7 (22) the average agricultural commodity freight rate charged by the railroad for shippers in Montana for
 8 the most recently completed calendar year and the average agricultural commodity freight rate charged by the
 9 railroad for shippers outside of Montana for the most recently completed calendar year; and
 10 ~~(22)~~(23) any other facts the department may require."
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12 **Section 2.** Section 15-23-205, MCA, is amended to read:

13 **"15-23-205. Assessment -- how made.** (1) The department shall assess the railroad transportation
 14 property of all railroads operated in more than one county or more than one state as provided in this section.
 15 Assessment must be made to the person owning or leasing or using the property and must be made upon the
 16 entire railroad within the state.

17 (2) The department shall determine the value of the railroad system for the current year by multiplying
 18 the base value of the railroad by the value change factor determined under subsection (3).

19 (3) (a) The value change factor is the sum of:

20 (i) the income change factor, weighted by 50% ~~25%~~ if the freight rate change factor is applicable or 50%
 21 if the freight rate change factor is not applicable;

22 (ii) the gross profit margin change factor, weighted by 25%; ~~and~~

23 (iii) the property change factor, weighted by 25%; and

24 (iv) if applicable, the freight rate change factor, weighted by 25%.

25 (b) The income change factor is determined by dividing the change in earnings by the change in the
 26 capitalization rate.

27 (c) The gross profit margin change factor is determined by dividing the average gross profit margin for
 28 the 2 years immediately preceding the current tax year by the average gross profit margin for the 2 years
 29 immediately preceding the previous tax year.

30 (d) The property change factor is determined by dividing the system cost reported by the railroad for the

1 tax year immediately preceding the current tax year by the system cost reported by the railroad for the tax year
2 immediately preceding the previous tax year.

3 (e) The freight rate change factor is determined by calculating the average agricultural commodity freight
4 rates charged by the railroad for shippers in Montana and the average agricultural commodity freight rates
5 charged by the railroad for shippers outside Montana. The freight rate change factor is the quotient obtained by
6 dividing the railroad's average agricultural commodity freight rates charged for shippers in Montana for the most
7 recently completed calendar year by the railroad's average agricultural commodity freight rates charged for
8 shippers outside of Montana for that calendar year. If the freight rate change factor is less than one, then the
9 freight rate change factor must be disregarded.

10 (4) The department shall apportion the system value of the railroad to Montana by multiplying the system
11 value of the railroad determined under subsection (2) by the average of the allocation factor for the 2 years
12 immediately preceding the current tax year. The allocation factor is determined under subsection (5).

13 (5) The allocation factor used to apportion the system value of the railroad to Montana is the average
14 of the sum of:

15 (a) the ratio of track miles in the state to total system track miles;

16 (b) the ratio of revenue ton miles in the state to total system revenue ton miles;

17 (c) the ratio of gross investment in road and equipment in the state to total system gross investment in
18 road and equipment;

19 (d) the ratio of operating revenue reported in the state to total system operating revenue; and

20 (e) the ratio of railroad car and locomotive miles in the state to total system railroad car and locomotive
21 miles.

22 (6) The department shall take into account extenuating circumstances to adjust the assessed value of
23 railroad property in the state. Occurrences that may result in an adjustment to the assessed value of railroad
24 property include but are not limited to:

25 (a) extraordinary, unusual, or infrequent events that are material in nature and of a character different
26 from the typical or customary business operations, that are not expected to recur frequently, and that are not
27 normally considered in the evaluation of the operating results of a business; and

28 (b) material increases or decreases in income and property as a result of events such as writeoffs,
29 writedowns, and changes in accounting methods or practices.

30 (7) In determining the taxable value of railroad property, the department shall determine the percentage

- 1 rate "R" provided for in 15-6-145 in order to achieve compliance with the requirements of the federal Railroad
- 2 Revitalization and Regulatory Reform Act of 1976, as amended."
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