



# Revenue and Transportation Interim Committee

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## 59th Montana Legislature

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December 2, 2005

TO: Revenue and Transportation Interim Committee

FROM: Lee Heiman, Staff Attorney *lee*

RE: Central assessment and classification of property

Most property is classified for tax purposes by type and use. Some property, however, is classified by how it is assessed. Three classes of property use the property's centrally assessed status factor in its classification. The sections are:

**15-6-141. Class nine property -- description -- taxable percentage.** (1) Class nine property includes:

(a) centrally assessed allocations of an electric power company or centrally assessed allocations of an electric power company that owns or operates transmission or distribution facilities or both, . . .

(b) allocations for centrally assessed natural gas companies having a major distribution system in this state; and

(c) centrally assessed companies' allocations except:

(i) electrical generation facilities classified under 15-6-156 and wind generation facilities classified under 15-6-157;

(ii) property owned by cooperative rural electric and cooperative rural telephone associations and classified under 15-6-135;

(iii) property owned by organizations providing telephone communications to rural areas and classified under 15-6-135;

(iv) railroad transportation property included in 15-6-145;

(v) airline transportation property included in 15-6-145; and

(vi) telecommunications property included in 15-6-156.

(2) Class nine property is taxed at 12% of market value.

**15-6-156. Class thirteen property -- description -- taxable percentage.** (1) Except as provided in subsections (2)(a) through (2)(g), class thirteen property includes:

(a) electrical generation facilities, except wind generation facilities classified under 15-6-157, of a centrally assessed electric power company;

(c) noncentrally assessed electrical generation facil:

Revenue & Transportation Committee Meeting  
December 2, 2005

classified under 15-6-157, owned or operated by any electrical energy producer; and  
(d) allocations of centrally assessed telecommunications services companies.

...  
(4) Class thirteen property is taxed at 6% of its market value.

**15-6-157. Class fourteen property -- description -- taxable percentage.** (1) Class fourteen property includes:

(a) wind generation facilities of a centrally assessed electric power company;

...  
(c) noncentrally assessed wind generation facilities owned or operated by any electrical energy producer;

...  
(4) Class fourteen property is taxed at 3% of its market value.

The centrally assessed property is:

**15-23-101. Properties centrally assessed.** The department shall centrally assess each year:

(1) the railroad transportation property of railroads and railroad car companies operating in more than one county in the state or more than one state;

(2) property owned by a corporation or other person operating a single and continuous property operated in more than one county or more than one state, including but not limited to telegraph, telephone, microwave, and electric power or transmission lines; natural gas or oil pipelines; canals, ditches, flumes, or like properties and including, if congress passes legislation that allows the state to tax property owned by an agency created by congress to transmit or distribute electrical energy, property constructed, owned, or operated by a public agency created by congress to transmit or distribute electrical energy produced at privately owned generating facilities, not including rural electric cooperatives;

(3) all property of scheduled airlines;

(4) the net proceeds of mines, except bentonite mines;

(5) the gross proceeds of coal mines; and

(6) property described in subsections (1) and (2) that is subject to the provisions of Title 15, chapter 24, part 12.

The use of central assessment to classify property was enacted by Chapter 686, Laws of 1979. Its purpose was to establish a workable central assessment system. Before its amendment, 15-23-101, MCA, provided for central assessment of single and continuous property, but "buildings on right-of-way, land outside the right-of-way and improvements thereon, dams and powerhouses, furniture, machinery, and other personal property situated within a county shall be assessed in that county". Prior to the enactment of Chapter 686, property was in a class that provided "centrally assessed utility allocations after deductions of locally assessed properties, except" rural telephone and cooperatives, and that taxed the property at 16% of market value. Chapter 686 established a new class, class nine, which we still have as 15-6-141, MCA. As enacted, the class had two rates: 12% for electric power and natural gas companies' centrally assessed allocations

and 15% for general centrally assessed allocations not otherwise exempted. The 15% provision was deleted in 1985. The net effect of Chapter 686 was to eliminate the deduction of locally assessed operating property from the central assessment and move the utility centrally assessed property into a new class with a rate of 12% rather than 16%. The committee minutes reflect that the utilities actually paid somewhat more property taxes because the deduction of locally assessed property disproportionately reduced unit values of centrally assessed property. The change did, however, provide for a more stable tax base and a more equitable allocation formula for counties.

Because of deregulation of utilities, I think it would be useful to review whether central assessment should be a factor in the classification of property. It might be more logical to remove the descriptive language in the central assessment section and move it to the classification sections. The central assessment section could then provide that operating properties in certain classes, if under single ownership that crosses a county or state boundary, should be assessed centrally with the value allocated to the respective jurisdictions by the state. Central assessment of multicounty operating property without requiring continuous property going over a county or state boundary, as is done for airlines under 15-23-101(3) and Title 15, chapter 23, part 4, MCA, might also be explored.