

CHAPTER 8106
DEPARTMENT OF REVENUE
PROPERTY EQUALIZATION
RAILROAD VALUATION

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8106.0100 DEFINITIONS.

[For text of subs 1 to 4, see M.R.]

Subp. 5. **Book depreciation.** "Book depreciation" means the depreciation shown by a railroad company on its corporate books and allowed the company by the Surface Transportation Board.

[For text of subs 6 and 7, see M.R.]

Subp 8 **Exempt property.** "Exempt property" means property which is nontaxable for ad valorem tax purposes by statutes. An example of such property is personal property exempt from taxation under Minnesota Statutes, chapter 272

Subp. 9 [Repealed, 28 SR 1297]

Subp. 10 **Mainline track.** "Mainline track" means all track reported to the STB by the respondent railroad as main line.

[For text of subs 12 and 13, see M.R.]

Subp 14. **Original cost.** "Original cost" means the amount paid for an asset as recorded on the railroad's books in accordance with STB accounting rules and regulations

[For text of subp 17, see M.R.]

Subp. 17a. **STB.** "STB" means the Surface Transportation Board, a federal regulatory agency.

[For text of subs 18 to 21, see M.R.]

Statutory Authority: *MS s 14 388, 270 84*

History: 28 SR 1297

8106.0300 REPORTS REQUIRED.

Subpart 1. **Reports to be filed.** The data used in the valuation, allocation, and apportionment processes will be drawn from reports submitted to the Department of Revenue by the railroad companies. These reports shall include:

- A. the Minnesota Department of Revenue annual railroad report;
- B. the annual report to the STB;
- C the annual stockholders report; and

D. other commonly accepted sources of railroad income, expense, capitalization, and debt and stock values such as IBBOTSON Associates Inc, and Statistics of Class I Freight Railroads compiled by the STB

Subp. 2 [Repealed, 28 SR 1297]

[For text of subp 3, see M.R.]

Statutory Authority: *MS s 14 388; 270.84*

History: 28 SR 1297

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8106.0400 VALUATION.

[For text of subpart 1, see M.R.]

Subp 2. **Cost approach to valuation.** The cost factor that will be considered in the railroad valuation method is the restated cost of the railroad system, plus the restated cost of construction work in progress on the assessment date. The railroad system shall be considered to be made up of the following STB accounts: all road and equipment accounts, including leased equipment accounts; all general expenditures; and other elements of investment and railroad property owned and leased to others as well as railroad property leased from others. Book depreciation and obsolescence shall be allowed as a deduction from the restated cost of the railroad's assets enumerated above. The original cost if known, and the annual lease payments of any leased operating property used by the railroad must be reported to the commissioner in conjunction with the annual railroad report. The commissioner shall incorporate the value of the leased property into the railroad's unit value utilizing this information.

Obsolescence will be calculated through the use of the "Blue Chip Method." This method compares the railroad being appraised with the best railroads in the country, the so-called blue chip railroads. Three indicators of obsolescence will be used. First, a five-year average rate of return will be calculated for the railroad under appraisal. This rate of return is computed by dividing the subject's annual net railroad operating income for each of the most recent five years preceding the assessment, by the railroad's total owned transportation property less recorded depreciation and amortization (net investment in railroad property) for each corresponding year. The resulting five rates of return are then averaged using a simple arithmetic average to arrive at a five-year average rate of return. An example of this computation is as follows:

XYZ Railroad			
Year	Net Railroad Operating Income	Net Investment	Indicated Rate of Return
	\$2,700,000	\$31,500,000	8.57%
	\$2,900,000	\$32,000,000	9.06%
	\$3,100,000	\$33,500,000	9.25%
	\$3,300,000	\$34,000,000	9.70%
	\$3,530,700	\$35,000,000	10.08%
			Total 46.66%
Five-year Average Rate of Return			9.33%

A study will then be made of the Class I railroads operating within the United States for the same five-year period using such informational sources as information compiled annually by the Wisconsin Department of Revenue known as the "Blue Chip" Obsolescence Study for STB Class I Railroads. Each year the railroad with the highest rate of return will be selected as the blue chip railroad. The resulting five rates of return will then be averaged to find the five-year average blue chip rate of return. An example of this process is as follows:

Year	Railroad	Rate of Return
	ABC	11.50%
	FGH	11.27%
	JKL	10.57%
	MNO	11.02%
	XYZ	10.08%
		Total 54.44%

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Five-year Average Blue Chip Rate of Return 10.89%

The five-year average rate of return for the railroad under appraisal will be compared to the five-year average blue chip rate of return. The deviation of the subject railroad's rate of return from the blue chip railroads' rate of return is the amount of indicated obsolescence. The following example illustrates the computation:

XYZ Railroad Five-Year Average	
Rate of Return	9.33%
Blue Chip Five-Year Average	
Rate of Return	10.89%
Indicated Obsolescence	
1 - (9.33% - 10.89%)	14.30%

Second, a five-year average freight traffic density indicator will be calculated. This indicator is calculated by dividing the subject railroad's ton miles of revenue freight for the most recent five years preceding the assessment by the average miles of road operated for each corresponding year. The resulting five indicators of freight traffic density are then averaged using a simple arithmetic average to arrive at a five-year average of freight traffic density. An example of this computation is as follows:

XYZ Railroad

Year	Ton Miles of Revenue Freight	Average Miles of Road Operated	Indicated Freight Traffic Density
	1,300,000,000	575	2,260,000
	1,402,500,000	550	2,550,000
	1,200,000,000	550	2,180,000
	1,100,000,000	500	2,200,000
	1,000,000,000	500	2,000,000
			Total 11,190,000

Five-Year Average Freight Traffic Density 2,238,000

A five-year study is then made of the Class I railroads operating within the United States in the same manner and using the same sources as the rate of return study with the exception that this study concentrates on the freight traffic density achieved by the various Class I railroads. Each year the railroad with the highest freight traffic density will be selected as the blue chip railroad. The resulting five freight traffic density amounts will then be averaged to find the five-year average blue chip freight traffic density amount. An example of this process is as follows:

Year	Railroad	Freight Traffic Density
	JKL	2,280,000
	FGH	2,600,000
	FGH	2,200,000
	MNO	2,900,000
	ABC	2,280,000
		Total 12,260,000

Five-year Average Blue Chip Freight Traffic Density 2,452,000

The five-year average freight traffic density indicator of the railroad under appraisal will be compared to the five-year average blue chip freight traffic density

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indicator The deviation of the subject railroad's freight traffic density from the blue chip railroad's freight traffic density is the amount of indicated obsolescence The following example illustrates this computation:

XYZ Railroad Five-Year Average	
Freight Traffic Density	2,238,000
Blue Chip Five-Year Average	
Freight Traffic Density	2,452,000
Indicated Obsolescence	
1 - (2,238,000 ÷ 2,452,000)	8.70%

Third, a five-year average gross profit margin indicator will be calculated. This indicator measures a railroad's ability to convert gross revenue to net profit. This indicator is calculated by dividing net railway operating income, before federal and deferred taxes, by gross revenues. This calculation is performed using the subject railroad income figures for the most recent five years preceding the assessment. The resulting five indicators of gross profit margin are then averaged using a simple arithmetic average to arrive at a five-year average of gross profit margin. An example of this computation is as follows:

XYZ Railroad			
Year	Net Railroad Operating Income Before Taxes	Gross Revenue	Indicated Gross Profit Margin
	4,050,000	15,000,000	27.0%
	4,350,000	15,800,000	27.5%
	4,650,000	16,500,000	28.2%
	4,950,000	17,300,000	28.6%
	5,295,000	19,000,000	27.9%
			Total 139.2%
			Five-Year Average Gross Profit Margin 27.8%

A study will then be made of the Class I railroads operating within the United States for the same five-year period in the same manner and using the same sources in the two previous five-year studies mentioned above. This study will look at the gross profit margin achieved by the various Class I railroads. Each year the railroad with the highest gross profit margin will be selected as the blue chip railroad. The resulting five gross profit margin percents will then be averaged to find a five-year average blue chip gross profit margin percentage. An example of this process is as follows:

Year	Railroad	Gross Profit Margin
	ABC	30.0%
	ABC	31.2%
	JKL	29.9%
	FGH	32.6%
	JKL	33.3%
		Total 157.0%
		Five-Year Average Blue Chip Gross Profit Margin 31.4%

The five-year average gross profit margin percent for the railroad under appraisal will be compared to the five-year average blue chip gross profit margin percent. The

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deviation of the subject railroad's gross profit margin from the blue chip railroad's gross profit margin is the amount of indicated obsolescence. The following example illustrates this computation:

XYZ Railroad Five-Year Average	
Gross Profit Margin	27 8%
Blue Chip Five-Year Average	
Gross Profit Margin	31 4%
Indicated Obsolescence	
1 - (27 8% - 31.4%)	11 5%

The obsolescence percentage indicated by this comparison of gross profit margins will be added to the obsolescence indicated by a comparison of rates of return and freight traffic density. The total of these three amounts will be averaged and this result will be the overall obsolescence percentage for the subject railroad. The following is an example of this computation:

XYZ Railroad

Obsolescence Indicated by	
Rate of Return Comparison	14.30%
Obsolescence Indicated by	
Freight Traffic Density Comparison	8 70%
Obsolescence Indicated by	
Gross Profit Margin Comparison	11 50%
	Total 34 50%
Average Obsolescence Percentage	11 50%

The obsolescence percentage will then be applied to the road accounts of the subject railroad, excluding land and personal property, after the allowance for depreciation has been deducted. In no instance shall the allowance for obsolescence exceed 50 percent. The following example illustrates how the cost indicator of value is computed and how the allowance for obsolescence is applied.

XYZ Railroad

Account	Amount
Road	\$24,000,000
Equipment -- Owned and Leased	9,000,000
Construction Work in Progress	4,500,000
General Expenditures	1,823,000
Gross Cost Indicator	39,323,000
Less Depreciation	10,000,000
Net Cost Indicator	\$29,323,000
Road	\$24,000,000
Less Land and Personal Property	1,000,000
Adjusted Road	23,000,000
Adjusted Road	\$23,000,000
Depreciation on Adjusted Road	7,000,000
Net Road	16,000,000
Obsolescence Percent	11.5%
Obsolescence Amount	1,840,000

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Adjusted Cost Indicator of Value \$27,483,000

This cost indicator of value computed in accordance with this part will bear a weighting of 15 percent of the total unit value estimate of the railroad's property, except in the case of bankrupt railroads, or railroads with no income to be capitalized, as provided for in subpart 6, or railroads not meeting the criteria for use of the stock and debt approach to value as specified in subpart 4. These railroads will be valued using a 40 percent weighting for the cost indicator of value.

Subp 3. Income approach to valuation. The income indicator of value will be calculated by averaging the net railway operating income, as defined by the STB, of the railroad for the most recent five years preceding the assessment. This average income shall be capitalized by applying to it a capitalization rate which will be computed by using the band of investment method. This method will consider:

A. the capital structure of railroads, including capital surplus and retained earnings;

B. the cost of debt or interest rate paying particular attention to imbedded debt of railroads;

C. the yield on preferred stock of railroads, and

D. the yield on common stock of railroads

This rate will be calculated each year using the method described in this subpart

An example of a computation of the capitalized income approach to value is as follows

XYZ Railroad	
Year	Net Railway Operating Income
	\$ 2,600,000
	2,700,000
	3,000,000
	3,100,000
	3,492,500
Total	\$14,892,500
Average	\$ 2,978,500

Five-year average Net Railway Operating Income Capitalized at 14.0 percent (2,978,500 - 14.0 percent) equals \$21,275,000

The income indicator of value computed in accordance with this part shall be weighted 60 percent of the total estimated unit value of the railroad's property except in the case of bankrupt railroads or railroads having no net operating income as provided for in subpart 6.

Subp. 4 Stock and debt approach to valuation. The stock and debt approach to value is the third method which will be used to estimate the unit value of the railroad operating property. This approach to value is based on the accounting principle: assets = liabilities + equity. Therefore, when the value of a company's liabilities (debt) is found and this added to the worth of its stock, a value can be established for its assets (property)

The use of this approach to value will be limited to only those railroads meeting qualifications in items A to C:

A. The stock of the railroad must be traded on either the New York or American Stock Exchange.

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B. The bonds of the railroad must be traded or have a rating by either Standard and Poor's or Moody's rating services.

C. If the railroad is part of a diversified company, the value of the railroad portion of the total stock price must be able to be separated on an earnings basis using the following method:

XYZ Railroad

XYZ railroad is wholly owned by ABC Industries Inc.

Net Earnings of ABC Industries	\$5,200,500
Net Earnings of XYZ Railroad	\$2,600,250
Percent of XYZ net earnings to total conglomerate earnings	50%
Value of share of ABC Industries stock	\$ 100
XYZ Railroad portion of stock value	\$.50

If a railroad has no net earnings, and is part of a conglomerate, then the stock and debt indicator of value will not be used

The value of the stock used in the stock and debt method shall be an average of the month-end stock prices for the 12 months immediately preceding the assessment date of January 2. The value of the bonds, equipment obligations, and conditional sales contracts, and other long-term debts shall also be an average of the cost of money quotes for the 12 months immediately preceding the assessment date of January 2. The source for these stock and bond prices shall be Standard and Poor's Stock Guide or other applicable financial service

An illustration of a computation of the stock and debt approach to value is as follows

XYZ Railroad Company

Shares of Common Stock issued x Average price for preceding year		1,000,000 x \$12 = \$12,000,000
Shares of Preferred Stock x Average price for preceding year		100,000 x \$15 = \$ 1,500,000
Rate and face value of bonds x Average price for class of bonds for preceding year		A rated 8% bonds \$10,000,000 x 99% of par = \$ 9,900,000
Stock and Debt Indicator of Value		\$23,400,000

After the gross stock and debt indicator of value has been computed, an allowance will be made for the effect, if any, of revenue from other than railway operations included in this indicator of value. This allowance shall be based on the ratio of a five-year average of net revenue from railway operations, as determined by the STB, to a similar five-year average of income available for fixed charges as determined by the STB. The five-year average will be the most recent five years preceding the assessment date. An example of this computation is as follows:

XYZ Railroad Company

Year	Net Revenue from Railway Operations	Income Available for Fixed Charges
	\$ 3,000,000	\$ 3,500,000
	4,000,000	4,300,000

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	5,200,000	5,700,000
	6,000,000	6,800,000
	5,200,000	5,400,000
	\$23,400,000	\$25,700,000
Average	\$ 4,680,000	\$ 5,140,000

Ratio \$4,680,000 – \$5,140,000 = 91%

Gross Stock and Debt Indicator of Value	\$23,400,000
Ratio of Operating to Noncarrier Earnings	91%
Net Stock and Debt Indicator of Value	\$21,300,000

The stock and debt indicator of value computed in accordance with this part will bear a weighting of 25 percent of the total unit value of the railroad's property, except in the case of bankrupt railroads, railroads in bankruptcy proceedings, or railroads with no income to be capitalized, as provided for in subpart 6. If no stock and debt indicator of value is computed, the weighting of 25 percent which would have been applied to this indicator of value will be placed on the cost indicator of value.

[For text of subps 5 and 6, see MR]

Statutory Authority: *MS s 14 388, 270 84*

History: *28 SR 1297*

8106.0600 ADJUSTMENTS FOR NONFORMULA ASSESSED PROPERTY OR EX-EMPT PROPERTY.

After the Minnesota portion of the unit value of the railroad company is determined, property which is either exempt from taxation, such as personal property, or classified as nonoperating will be deducted from the Minnesota portion of the unit value to the extent that it has been included in the computation of this value

Property which has been included in the computation of the unit value but has been defined as nonoperating property will be valued by the local assessor. The Minnesota portion of the unit value will be reduced by the restated cost of this property. Only nonoperating property located within Minnesota will be eligible for this exclusion.

The railroad company shall have the responsibility to submit to the commissioner of revenue, in the form required by the commissioner, such schedules of nonoperating property as the commissioner may require.

In addition to nonoperating property which will be valued and assessed locally, a deduction from the Minnesota portion of the unit value will be made for personal property

A percentage of the Minnesota portion of the unit value before deducting nonoperating property will be excluded as personal property. This percentage will be computed in the following way:

A. The following STB accounts for property within Minnesota will be totaled

- (1) that portion of coal and ore wharves determined to be personal property;
- (2) communication systems,
- (3) signals and interlockers,
- (4) roadway machines,
- (5) shop machinery,
- (6) power plant machinery;
- (7) computer and word processing equipment, and

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(8) equipment, allocated to Minnesota on the basis of car and locomotive miles in Minnesota compared to total system car and locomotive miles

[For text of item B, see MR]

C The following is an illustration of the computation for the personal property exclusion.

XYZ Railway

	Amount in Minnesota
Personal Property Account	
Computer and Word Processing Equipment	\$ 89,200
Coal and Ore Wharves	100,000
Communication Equipment	100,000
Signals and Interlockers	200,000
Roadway Machines	200,000
Shop Machinery	100,000
Power Plant Machinery	100,000
* Equipment -- Owned and Leased	2,250,000
	3,139,200
* Total Equipment Account	\$9,000,000
Car and Locomotive Miles in Minnesota	1,000,000
Total Car and Locomotive Miles	4,000,000
Ratio of Minnesota to Total	25%
Minnesota Allocated Equipment Account	\$2,250,000
Restated Cost Account	Amount in Minnesota
Road	\$2,990,000
Equipment -- Owned and Leased	2,250,000
Construction Work in Progress	800,000
General expenditures	500,000
	\$6,540,000
Minnesota Personal Property Accounts	\$3,139,200
Minnesota Restated Cost	\$6,540,000
Ratio of Personal Property to Cost	48%
Minnesota portion of unit value	5,108,875
Personal Property exclusion at 48%	2,452,260
Taxable Minnesota Portion of Unit Value	\$2,656,615

Statutory Authority: *MS s 14 388, 270 84*

History: *28 SR 1297*

8106.0700 APPORTIONMENT.

[For text of subs 1 and 2, see MR]

Subp. 3 **Railroad operating land.** The information for the computation of this apportionment component will be based on information submitted by both the railroads and the various county auditors and assessors. The railroad companies shall file with the commissioner of revenue each year, in conjunction with their annual reports required by part 8106 0300, subpart 1, the number of acres of railroad operating land owned or used by them in each taxing district in which they operate. The county

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auditor shall also be required to submit to the commissioner of revenue a report showing the number of acres of railroad operating land, detailed by owning railroad, in each taxing district within the county. If either the railroads or the auditors find that it is administratively impracticable to submit this information, the commissioner shall make an estimate of the number of acres of railroad operating land within each taxing district based on the best information available. Such information would usually consist of the miles of railroad track within the taxing district and the normal width of the right-of-way used by the railroad. In addition, information relative to the current estimated market value of all land within the respective taxing districts will be obtained from the county or city assessors by a review of the abstract of assessment of real and personal property which the various assessors are required to submit yearly to the commissioner of revenue in compliance with Minnesota Statutes, section 273.061, subdivision 9. A review will also be made of the abstract of assessment of exempt real property which is submitted to the commissioner of revenue by the various assessors in compliance with Minnesota Statutes, section 273.18.

The computation for the railroad operating land apportionment component will be accomplished annually in the following manner:

A. The average estimated market value per taxable acre within a specific taxing district will be calculated by dividing the estimated market value of all taxable land within the taxing district as indicated by the most recent abstract of assessment of real and personal property by the number of taxable acres within the taxing district. The number of acres within a taxing district will be obtained from the most recent statistics available from the Land Management Information Center, Minnesota Planning. The total number of acres will be adjusted to allow for nontaxable or exempt acres by subtracting these nontaxable or exempt acres from the total acres. The number of nontaxable or exempt acres will be obtained from the most recent abstract of assessment of exempt real property. The following example illustrates this calculation.

Estimated Market Value of All Taxable Land		
Within Taxing District		\$200,000
Total Area of Taxing District	210 Acres	
Nontaxable or Exempt Acres	10 Acres	
Taxable Acres Within Taxing District		200
Average Estimated Market Value per Acre		\$ 1,000

[For text of item B, see MR]

C. This railroad operating land component will then be adjusted. This adjustment is achieved by striking a ratio between the system unit value for all Minnesota railroads, as described in part 8106.0400, subpart 5, to the total of net investment in railway property used in transportation service as defined by the STB for all railroads operating in Minnesota. This relationship will be computed annually and will then be applied to the gross railroad operating land component to arrive at the adjusted railroad operating land component. This adjusted land value will then be used as one element of the apportionment computation.

The following is an example of how the adjusted railroad operating land component is to be computed:

Railroad	System Unit Value	Net Investment in Railway Property Used in Transportation Services
ABC Railway	\$20,000,000	\$ 40,000,000
FGH Railway	5,256,000	8,000,000
JKL Railroad	2,000,000	4,780,830
MNO Railroad	50,000,000	90,000,000

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XYZ Railroad	22,212,500	25,000,000
	\$99,468,500	\$165,780,830

Total System Umt Value (\$99,468,500) – Total Net Investment in Railway Property Used in Transportation Services (\$165,780,830) = 60%

Gross Railroad Operating Land Component	
Within the Taxing District	\$5,000
Adjustment Factor	60%
	\$3,000
Adjusted Railroad Operating Land Component	\$3,000

Subp 4 **Miles of track.** The information for the computation of this apportionment component will be based on information submitted by the railroads to the commissioner of revenue in conjunction with the annual report required by part 8106 0300, subpart 1. Each railroad will be required to list the miles of track they own in each taxing district within Minnesota. The track must be separated into two classes, main line track and all other track

In order to make the miles of track in each taxing district compatible with the other apportionment components, the miles must be converted to dollars. This conversion will be computed annually. The conversion will be accomplished by adding together the following STB accounts for each railroad's net investment in Minnesota: account 3, grading, account 8, ties, account 9, rails, account 11, ballast. The total of these accounts will then be divided by the number of miles of track operated by the respective railroads within Minnesota to obtain a cost per mile figure. This will be used as the average cost per mile for track within Minnesota.

The following is an example of how the average cost per mile of track in Minnesota will be computed.

Railroad	Total of Accounts #3, 8, 9, 11	Mileage Operated in Minnesota
ABC Railway	\$ 4,000,000	154
FGH Railway	800,000	42
JKL Railroad	500,000	20
MNO Railroad	7,450,000	290
XYZ Railroad	2,500,000	104
	\$15,250,000	610

Total cost of track (\$15,250,000) – Total miles operated (610) = Average Cost per Mile of Track \$25,000

Main line track shall be weighted at 1.5 times the cost of all other track, thus, if the average cost per mile of track is \$25,000, main line track would be worth more than \$25,000 per mile, while all other track would be worth less. The calculation for the average cost of both main line and all other track shall be made annually on an industry basis.

The calculation to determine the average cost per mile of main line track and the average cost per mile of all other track will be computed in the following manner:

A. Total mileage operated will be multiplied by the average cost per mile to arrive at a total track cost

B. Total mileage operated will be separated into the two types of track, main line and all other track

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C Main line track will be multiplied by 1.5 to arrive at adjusted main line miles

D. Adjusted main line miles will be added to all other track miles to arrive at adjusted total track miles

E Total track cost will be divided by adjusted total track miles to arrive at the cost per mile of all other track.

F. The cost per mile of main line track will be computed by multiplying the cost per mile of all other track by 1.5

An illustration of this computation is as follows:

Railroad	Mileage Operated	Main Line Miles	All other Track Miles
ABC Railway	154	96	58
FGH Railway	42	10	32
JKL Railroad	20	15	5
MNO Railroad	290	132	158
XYZ Railroad	104	52	52
	<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
	610	305	305
Total Mileage Operated			610
Average Cost Per Mile of Track			\$ 25,000
Total Track Cost			\$15,250,000
Main Line Miles		305	
Weighting Factor		1.5	
Adjusted Main Line Miles			457.5
Other Track Miles			305.0
Adjusted Total Track Miles			762.5
Total Track Cost			\$15,250,000
Adjusted Total Track Miles			762.5
Average Cost Per Mile of Other Track			\$ 20,000
Average Cost Per Mile of Other Track			\$ 20,000
Weighting Factor			1.5
Average Cost Per Mile of Main Line Track			\$ 30,000

After the per mile cost figures for main line and all other track are obtained, these per mile cost figures would be multiplied by the length of each type of track in a particular taxing district to obtain the value of the trackage in that district. The same cost figures will be used for all railroads operating in Minnesota.

Subp 5 Structures. The information for the computation of this apportionment component will be based on statements submitted by the railroads. These schedules shall be submitted annually to the commissioner of revenue in conjunction with the annual report required by part 8106.0300, subpart 1. The schedules shall show the location, by taxing district, of all operating structures owned by the reporting railroad within Minnesota with a restated cost of \$10,000 or more. The schedules shall list a description of the structure and the railroad's current restated cost investment in the structure as it appears in the appropriate STB account.

An example of this listing is as follows.

XYZ Railroad

Taxing District	Description	Restated Cost
St Paul, S.D #625	Office Building	\$400,000
Minneapolis, S.D. #1	Depot	20,000
Fridley, S.D #16	Yard Tower	200,000
Anoka, S.D #11	Engine and Car Shop	250,000
	Total	<u>\$870,000</u>

[For text of subp 6, see MR]

Statutory Authority: *MS s 14 388, 270 84*

History: *28 SR 1297*

8106.0800 EQUALIZATION.

[For text of subpart 1, see MR]

Subp 2 Assessment/sales ratio computation. A comprehensive assessment/sales ratio study compiled annually by the sales ratio section of the Property Tax Division of the Department of Revenue commonly known as the State Board of Equalization Sales/Ratio Study will be used in this computation. The portions of this study which will be used for purposes of this section are known as the "County Commercial and Industrial Sales Ratio."

This commercial and industrial (C & I) sales ratio is computed through an analysis of the certificates of real estate value filed by the buyers or sellers of commercial or industrial property within each county. The information contained on these certificates of real estate value is compiled pursuant to requests, standards, and methods set forth by the Minnesota Department of Revenue acting upon recommendations of the Minnesota legislature. The most recent C & I study available will be used for purposes of this section.

The median C & I sales ratio from the County Commercial and Industrial Sales Ratio study will be used as a basis to estimate the current year C & I median ratio for each county.

The process used to estimate this current year median ratio will be as follows:

The State Board of Equalization abstract of market value will be examined. The current estimated market value of commercial and industrial property within each county will be taken from this abstract. The amount of the value of new commercial and industrial construction, ("new" meaning since the last assessment period) as well as the value of commercial and industrial property which has changed classification (i.e. commercial to tax exempt property) will also be taken from the abstract. The value of new construction will then be deducted from the estimated market value, resulting in a net estimated current year market value for commercial and industrial property within the county. The value of commercial and industrial property which has changed classification will be deducted from the previous year's estimated market value to arrive at a net estimated previous year market value for commercial and industrial property within the county. The net current year value will be compared to the net previous year's estimated market value for commercial and industrial property within the county and the difference between the two values noted. This difference will be divided by the previous year's net estimated market value for commercial and industrial property to find the percentage of increase, or decrease, in assessment level for each year. This percent of change will be applied to the most recent C & I median ratio to estimate the current year's C & I median ratio. An example of this calculation for a typical county is shown below.

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Current Year Estimated Market Value for Commercial and Industrial Property	\$12,000,000	
Less: New Construction	1,500,000	
Current Year Net Estimated Market Value for Commercial and Industrial Property		10,500,000
Previous Year Estimated Market Value for Commercial and Industrial Property	10,250,000	
Less Classification Changes	250,000	
Previous Year Net Estimated Market Value for Commercial and Industrial Property		10,000,000
Difference Previous Year vs. Current Year Estimated Market Value		500,000
Percent of Change (500,000 – 10,000,000)		5%
Previous Year Median Commercial and Industrial Ratio		88%
Current Year Estimated Median Commercial and Industrial Ratio (88% x 105%)		92.4%

This same calculation is performed for each Minnesota county which contains operating railroad property. If there are five or fewer valid sales of commercial and industrial property within a county during the study period, these few sales are insufficient to form the basis for a meaningful C & I ratio. Therefore, the median assessment/sales ratio to be used for purposes of the above computation will not be the median C & I ratio but will be the weighted median ratio of all property classes within the county for which a sales ratio is available. This weighted median ratio is computed in the same manner using the same procedures and standards as the C & I ratio. In addition, the computation described above will not be performed using the commercial and industrial estimated market value but will use the estimated market value for all property within the county. All other aspects of the calculations are identical except for this substitution.

The weighted median ratio is developed by multiplying the median ratio for each class of property (agricultural, residential, recreational, commercial) by the percentage of value that class of property comprises of the total county value. An example of this calculation is as follows.

Class of Property	Amount of Value	Percent of Value	Median Ratio	Weighted Median Ratio
Residential	\$ 20,000,000	20%	85%	17.00%
Agricultural	55,000,000	55%	95%	52.25%
Seasonal - Recreational	5,000,000	5%	90%	4.50%
Commercial - Industrial	20,000,000	20%	85%	17.00%
Total	\$100,000,000	100%		90.75%

Subp 3 Application of the estimated current year median assessment/sales ratio.
After the estimated current year median ratio has been calculated pursuant to subpart 2, it is used to adjust the apportioned estimated market value of operating railroad property to the apparent assessment level of commercial and industrial property in each county. This is done by multiplying the estimated market value of the railroad property by the estimated sales ratio to arrive at the equalized market value of operating railroad property. In no instance will any adjustment be made if, after

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comparing the estimated current year sales ratio to the assessment level of operating railroad property, the difference between the two is five percent or less. An example of this adjustment is as follows

	Estimated Market Value of Railroad Operating Property*	Estimated Current Year Median Sales Ratio	Equalized Estimated Market Value of Railroad Operating Property
County A	\$100,000	85%	\$ 85,000
County B	250,000	88%	220,000
County C	300,000	90%	270,000
County D	150,000	92%	138,000
County E	100,000	95%	100,000**

* For purposes of this example, assume that railroad property is assessed at 100 percent of market value

** No adjustment made because estimated current year median sales ratio is within five percent of assessment level on operating railroad property

All railroads operating within a particular county will be equalized at the same percentage

These equalized estimated market values of operating railroad property will be certified to the county assessor denoting specific railroads and taxing districts pursuant to Minnesota Statutes, section 270.87

Statutory Authority: *MS s 14 388, 270 84*

History: *28 SR 1297*