DEPARTMENT OF REVENUE

Rule 8100 Review Project Update

2/23/2022

Introduction

Minnesota Session Laws 2021, 1st Special Session, Chapter 14, article 6, section 20 requires the Department of Revenue to perform a review of the framework for valuations of property described in Minnesota Statutes, sections 273.33, 273.35, 273.36, and 273.37, including the methodology for valuations prescribed in Minnesota Rules, chapter 8100 Revenue values utility and pipeline operating property under Minnesota Rules, chapter 8100. We certify these values to counties, which calculate, bill, and collect property taxes.

To ensure review of the framework for property valuations is as meaningful as possible, Revenue's leadership partnered with the specialized Office of Collaboration and Dispute Resolution (OCDR) within the Department of Administration to facilitate the process.

These discussions included Revenue, local governments, pipeline and utility companies, state regulators, and other stakeholders. Our timeline is:

- October – November 2021: Virtual listening sessions with stakeholders to gather feedback, enhance mutual understanding, and discuss Rule 8100 and related statutes. These sessions focused on stakeholders' values, principles, and priorities.
- Beginning in March 2022: Based on information shared during the October and November listening sessions, Revenue will convene stakeholders for additional discussion deliberation, and review of the methodology.

Phase 1: Listening Sessions

To begin the review of the framework for utility and pipeline property valuations, including the methodology prescribed in Minnesota Rules, Chapter 8100 Revenue reached out to over 400 stakeholders to invite them to participate in listening sessions with the goal of better understanding stakeholder interests. The listening sessions helped inform our review and next steps as Revenue continues the process.

Revenue held seven 90-minute listening sessions in October and November 2021 and one supplemental 60-minute listening session in January 2022. The initial sessions included 15-20 public- and private-sector stakeholders. Approximately 100 individuals participated in a listening session:

- 55 stakeholders representing 31 pipeline and utility companies, cooperatives, and associated lobbyists and law firm representatives
- 47 stakeholders representing local governments, local government associations, and the Legislature

Representatives from some utility companies and local governments participated in more than one listening session.

The listening session agenda was developed by Revenue and OCDR and divided into topic areas that were identified as of interest to stakeholders: aspects of the current valuation system that are working well, aspects that could work better, the timing of the valuation process, and resources required from stakeholders.

Findings

During the listening sessions stakeholders shared things they like and dislike about the valuation process. Stakeholders mentioned numerous strengths with the rule and administration of the rule, and several the strengths of the rule were also a weakness of the rule. These include the administrative appeals process, discretion, communication, and responsiveness to questions.

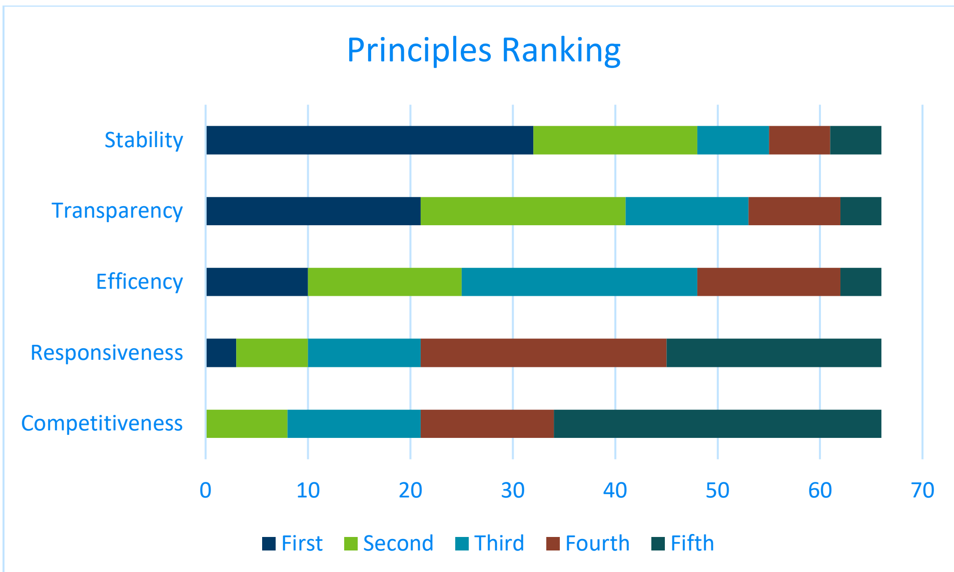
- **Administrative appeals process**: the changes to the administrative appeal enacted in 2017 strengthened it and are overall viewed positively. Stakeholders from private and public sectors expressed their appreciation for the process and its ability to solidify valuations within the assessment year. However, the timing of the appeal process is still concerning to local governments – especially those where utility and pipeline property make up a large share of the total tax base. Additionally, a few utility and pipeline companies shared a desire for additional information on unprincipled settlements that result from the appeal process.
- **Discretion:** Rule 8100 provides for discretion for valuing pipeline and utility property. Stakeholders shared that the use of discretion is both a strength and a weakness. The discretion provides flexibility to allow for the most accurate assessment of value, but also can be a point of disagreement.
- **Communication:** Generally, stakeholders appreciate the different communication channels Revenue has developed over the years to keep companies and local governments informed. Revenue hosts a fall and spring forum each year to discuss topics related to state assessed property. While these programs are open to everyone, there were stakeholders who did not know about the events. In 2019, Revenue worked with local governments to develop a virtual room to securely share which companies updated valuations during the appeal process so counties could monitor for potential tax base implications.
- **Timeline:** There are competing deadlines that create a tension within the timeframe for valuing state assessed properties and the administrative appeals process. Companies expressed a desire to have more time to file with Revenue, meanwhile local governments have statutory requirements to send their Truth in Taxation notices. The timeline for completing all of this work does not provide additional space and can create stress for all parties.

At each listening sessions we asked stakeholders to rate these five principles from most important to least important:

- **Stability**, the tax should provide stable revenues over the economic life cycle. Significant unexpected changes in tax laws, tax bills to taxpayers and revenues to governments should be minimized.
- **Transparency**, taxpayers should understand how their tax is determined, which governmental unit is responsible for the tax and what services are funded by the tax.

- **Efficiency**, the tax should maximize voluntary compliance, minimize administrative and compliance costs, and minimize economic distortions caused by tax-motivated behavior.
- **Competitiveness**, the tax should improve the competitiveness of the state relative to other states and nations.
- **Responsiveness**, Tax should change with changes in value. Lags in the system between market change and a corresponding tax change should be minimized.

Participants ranked stability and transparency as the two most important principles for the valuation process. Local governments and companies both value having a tax system that prioritizes stability for valuations from year to year. The chart below shows the full rankings from the 66 listening session attendees who participated in the survey.



Next Steps

Revenue continues to work with OCDR to plan additional engagement sessions to further review the framework for valuing utility and pipeline property and discuss the themes shared during the listening sessions. These sessions also reminded Revenue that not everyone has the same background and knowledge of the valuation process so we will offer additional educational information sessions.

The second phase of listening sessions will begin in early spring 2022 with a goal of wrapping up by the end of spring. Revenue will create two workgroups to review Rule 8100's methodology and process.

These sessions will allow for deeper discussions on:

- Centrally assessed property

- The methodology required in Rule 8100
- Outreach and information sharing opportunities
- Timing and timeline needs for all stakeholders

Revenue remains committed to serving our communities and provide opportunities to better understand stakeholder interests with respect to our work. The second phase will begin in spring 2022 with a goal of wrapping up by the summer. Our goal is to create an environment for meaningful conversations and discussions on this process and the methodology.