

Conference Engrossed

State of Arizona
Senate
Forty-seventh Legislature
Second Regular Session
2006

SENATE BILL 1543

AN ACT

AMENDING SECTIONS 42-14003 AND 42-14201 THROUGH 42-14204, ARIZONA REVISED STATUTES; RELATING TO PROPERTY TAX VALUATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 42-14003, Arizona Revised Statutes, is amended to
3 read:
4 42-14003. Information considered in determining valuation;
5 notice of determination
6 A. In determining valuation under this chapter, the department shall
7 consider all additional RELEVANT information INCLUDING:
8 1. FULL CASH VALUE SHALL NEVER BE GREATER THAN MARKET VALUE.
9 2. Information that is presented in an appeal. ~~and~~
10 3. Information that is otherwise available.
11 B. The department shall notify the property owner of the final full
12 cash value on or before August 31.
13 Sec. 2. Section 42-14201, Arizona Revised Statutes, is amended to
14 read:
15 42-14201. Annual determination of valuation
16 The department shall annually determine, in the manner prescribed by
17 this article, the valuation of ALL PROPERTY, OWNED OR LEASED, AND USED TO
18 OPERATE pipelines ~~that operate~~ in this state.
19 Sec. 3. Section 42-14202, Arizona Revised Statutes, is amended to
20 read:
21 42-14202. Annual report for determining valuation; failure to
22 file; penalty; forfeiture of appeal rights
23 A. On or before April 1 of each year, each company OWNING PROPERTY
24 that is valued pursuant to this article shall file a report with the
25 department, under oath, stating the information that the department requires
26 to ~~enable it to make~~ ALLOW THE DEPARTMENT TO DETERMINE a valuation of the
27 ~~company~~ PIPELINE PROPERTY.
28 B. On written request and for good cause shown, the director may
29 extend the time for filing the report required by this section.
30 C. If a company fails to file the report on or before April 1 of the
31 valuation year, or the extended due date if an extension is granted, the
32 department shall:
33 1. Estimate the value of the property based on one hundred five per
34 cent of the preceding year's full cash value or on any information that is
35 available to the department.
36 2. Also assess a penalty in the amount of the lesser of:
37 (a) One-half of one per cent of the value that is estimated by the
38 department.
39 (b) One hundred dollars per day for each day the company fails to file
40 the report beyond the due date.
41 D. If the report is not filed by May 20 of the valuation year, the
42 company forfeits its right to appeal the valuation and classification
43 pursuant to section 42-14005.

1 Sec. 4. Section 42-14203, Arizona Revised Statutes, is amended to
2 read:

3 42-14203. Determination and notice of valuation; hearing;
4 reporting valuation

5 A. ON OR BEFORE JUNE 15 OF EACH YEAR, THE DEPARTMENT SHALL NOTIFY
6 OWNERS OF PIPELINE PROPERTY IN THIS STATE THAT IS VALUED BY THE DEPARTMENT OF
7 THE DEPARTMENT'S DETERMINATION OF THE PRELIMINARY FULL CASH VALUE OF THE
8 PROPERTY.

9 B. ON OR BEFORE JULY 15 OF EACH YEAR, THE PROPERTY OWNER MAY APPLY IN
10 WRITING TO APPEAR BEFORE THE DEPARTMENT TO BE HEARD CONCERNING THE VALUE
11 DETERMINATION.

12 ~~A. C.~~ C. On or before August 31 of each year, the department shall find
13 the FINAL full cash value of the property ~~of each pipeline that operates in~~
14 ~~this state.~~

15 ~~B. D.~~ D. The valuation required by this section is the value determined
16 as of January 1 of the valuation year.

17 ~~C. E.~~ E. On or before November 30 of each year, the department shall
18 transmit the locations, descriptions and valuations OF PIPELINE PROPERTIES to
19 the respective county assessors.

20 Sec. 5. Section 42-14204, Arizona Revised Statutes, is amended to
21 read:

22 42-14204. Computing valuation of pipelines; definitions

23 A. The valuation of pipeline property that is subject to valuation for
24 tax purposes shall be determined in the manner prescribed by this section.

25 ~~B. The value of construction work in progress equals eighty five per~~
26 ~~cent of the amount spent and entered on the taxpayer's accounting records as~~
27 ~~of December 31 of the preceding calendar year as construction work in~~
28 ~~progress.~~ THE DEPARTMENT SHALL NOT VALUE PERSONAL PROPERTY CONSTRUCTION WORK
29 IN PROGRESS UNTIL THE PROPERTY IS FIRST PLACED IN COMMERCIAL SERVICE.

30 C. The value of materials and supplies equals the total cost of
31 materials and supplies as of December 31 of the preceding calendar year.

32 D. The value of gas stored underground equals the total cost of
33 NONCURRENT gas stored underground as of December 31 of the preceding calendar
34 year.

35 E. The value of noncapitalized leased operating property shall be
36 determined by applying to the original cost of the noncapitalized leased
37 operating property the ratio derived from dividing the preliminary system
38 value by the original cost of the plant.

39 F. The department shall determine the valuation of a pipeline as
40 follows:

41 1. Determine the base value.

42 2. Compute the value change factor.

43 3. Multiply the values in paragraphs 1 and 2 of this subsection to
44 compute the preliminary system value. If the value change factor does not

1 apply, the preliminary system value is the system net book value of plant in
2 service as of December 31 immediately preceding the current year.

3 4. Add the value of REAL PROPERTY construction work in progress,
4 materials and supplies, noncapitalized leased operating property and gas
5 stored underground to the preliminary system value.

6 5. Compute the allocation factor.

7 6. Multiply the sum computed pursuant to paragraph 4 of this
8 subsection by the allocation factor.

9 G. All terms and applications of terms shall be interpreted as nearly
10 as possible, under the circumstances, according to the federal energy
11 regulatory commission uniform system of accounts for pipelines in effect on
12 January 1, 1989.

13 H. IN ADDITION TO THE COMPUTATION PRESCRIBED IN SUBSECTIONS B THROUGH
14 G OF THIS SECTION, THE PROPERTY OWNER MAY SUBMIT DOCUMENTATION SHOWING THE
15 NEED FOR, AND THE DEPARTMENT MUST CONSIDER, AN ADDITIONAL ADJUSTMENT TO
16 RECOGNIZE OBSOLESCENCE USING STANDARD APPRAISAL METHODS AND TECHNIQUES.

17 ~~H.~~ I. In this section, unless the context otherwise requires:

18 1. "Allocation factor" means the factor used to assign a portion of
19 the system value to this state and is computed by dividing:

20 (a) The total Arizona original cost of plant in service, REDUCED BY
21 THE COST OF THE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION, MAPPING COSTS
22 AND COSTS ASSOCIATED WITH ENVIRONMENTAL STUDIES, PLUS materials and supplies,
23 REAL PROPERTY construction work in progress, noncapitalized leased operating
24 property and gas stored underground as of December 31 of the preceding
25 calendar year.

26 (b) By the corresponding total system original cost as of December 31
27 of the preceding calendar year.

28 2. The "asset change factor" is computed by dividing the system net
29 book value of plant in service as of December 31 immediately preceding the
30 current valuation year by the system net book value of plant in service as of
31 December 31 immediately preceding the prior valuation year. If the
32 denominator is zero, the asset change factor does not apply.

33 3. The "base value" is the final full cash value of the system plant
34 in service in the preceding valuation year. If the property was not subject
35 to property valuation in this state in the preceding valuation year, the
36 value is the net book value of plant in service plus the value of REAL
37 PROPERTY construction work in progress, materials and supplies,
38 noncapitalized leased operating property and gas stored underground. If
39 ownership changes, the base value shall be transferred to the new owner.

40 4. The "capitalization rate" is the sum of the year-end thirty year
41 treasury bond rate plus 6.8 per cent.

42 5. The "change in capitalization rate" is computed by dividing the
43 current year capitalization rate by the previous year capitalization rate.

44 6. The "change in earnings before interest and taxes" is computed by
45 dividing the average earnings before interest and income taxes for the three

1 years immediately preceding the current valuation year by the average
2 earnings before interest and income taxes for the three years immediately
3 preceding the previous valuation year. If less than four years of earnings
4 data are available, this factor does not apply. If four years of earnings
5 data are available and a major plant addition or retirement occurs, for the
6 valuation year after the addition or retirement occurs, this ratio shall be
7 derived by dividing the earnings before interest and income taxes for the
8 year immediately preceding the current valuation year by the earnings before
9 interest and income taxes for the year immediately preceding the previous
10 valuation year.

11 ~~7. "Construction work in progress" means the total of the balances of~~
12 ~~work orders for plant in process of construction on the last day of the~~
13 ~~preceding calendar year.~~

14 ~~8.~~ 7. "Gas stored underground" means the noncurrent portion of the
15 cost of recoverable gas that is purchased or produced by the utility,
16 COMPANY, that is stored in depleted or partially depleted gas or oil fields
17 or other underground reservoirs ~~and that is not held to meet the service~~
18 ~~requirements of the utility's customers.~~

19 ~~9.~~ 8. The "income change factor" is computed by dividing the change
20 in earnings before interest and taxes by the change in the capitalization
21 rate. If the change in earnings before interest and taxes does not apply, the
22 income change factor does not apply.

23 ~~10.~~ 9. "Major plant addition or retirement" means an addition or
24 retirement of plant in the year preceding the current valuation year that
25 results in an increase or decrease of at least twenty per cent of the
26 original cost of plant in service.

27 ~~11.~~ 10. "Noncapitalized leased operating property" means property that
28 is subject to an agreement that transfers the use of property to the lessee
29 during the term of the lease and that is not capitalized on the lessee's
30 balance sheet.

31 ~~12.~~ 11. "Preliminary system value" means the base value multiplied by
32 the value change factor.

33 12. "REAL PROPERTY CONSTRUCTION WORK IN PROGRESS" MEANS THE TOTAL OF
34 THE BALANCES OF WORK ORDERS FOR REAL PROPERTY OR REAL PROPERTY IMPROVEMENTS
35 IN PROCESS OF CONSTRUCTION ON THE LAST DAY OF THE PRECEDING CALENDAR YEAR.

36 13. "System net book value of plant" means the original cost of the
37 system plant in service less the related accumulated provision for
38 depreciation.

39 14. "System value" means the sum of the system value of plant in
40 service, REAL PROPERTY construction work in progress, materials and supplies,
41 noncapitalized leased property and gas stored underground.

42 15. The "value change factor" is the average of the income change
43 factor and the asset change factor. If the income change factor does not
44 apply, the value change factor is the asset change factor. If the asset
45 change factor does not apply, the value change factor does not apply.