

STATE OF MICHIGAN



JAMES J. BLANCHARD, Governor

DEPARTMENT OF TREASURY

ROBERT A. BOWMAN, State Treasurer

STATE TAX COMMISSION

4th Floor Treasury Building

Lansing, Michigan 48922 Telephone 517 373-0500

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REA Personal Property
Reporting Procedure

COMMISSION MEMBERS

LeRoy J. Nelson
WARD G. DEXEL
ROBERT O. VANDERMARK

TO: Assessing Officers and County Equalization Directors
FROM: State Tax Commission
RE: Reporting and Valuation Procedure for Rural Electric Cooperatives

In the past, the state equalized value of the thirteen Michigan rural electric cooperatives of the distribution plant was calculated using a schedule published by the Tax Commission each year. The unit values contained in these schedules were indexed since 1978 due to the limited availability of cost information for the various types of distribution lines. A survey for the years 1980 through 1982, of the distribution cooperatives showed that values calculated using the Tax Commission schedules exceeded the book values of the cooperatives by 29.5% in 1980, 35% in 1981, and 42.6% in 1982.

The plant values so calculated were then adjusted by condition and system economic factors. These factors were based largely on judgment and, therefore, gave rise to potential problems.

A committee was appointed by the Michigan Electric Cooperative Association, MECA, (the cooperatives association) in July, 1983 to study the situation. The committee worked with the Commission staff to evaluate the existing procedures and develop an alternative to provide for a more accurate determination of true cash value.

The procedures are based upon the following concepts:

1. Each cooperative will use its actual cost. The actual cost of distribution plant will be allocated among the various taxing units. The current year cost will be reported as of November 30. This is due to the fact that the books of the cooperatives are not closed in time to get end-of-year values and meet the February 20th filing deadline. Due to the seasonal nature of rural electric cooperatives construction programs the effect of the November 30 cutoff on true cash value will be negligible.
2. The actual cost will be adjusted by using Column 2 of the State Tax Commission multipliers for Valuing Personal Property.

Rural electric cooperatives will prepare their personal property statements using the same procedures as the investor owned utilities in Michigan.

3. A system economic factor will be based upon the cooperative's kilowatt hour sales per mile of line.

The Commission considers this to be a realistic common denominator representative of the actual economic conditions of the cooperative.

Michigan rural electric cooperatives serve less than seven meters per mile of line and have revenues of less than \$3,000 per mile of line, while the investor owned utilities serve approximately forty meters per mile of line and have revenues of approximately \$36,000 per mile of line. This disparity has been recognized over the years by the application of a system economic factor.

The procedure provides for the fair and equitable determination of true cash value for taxing purposes by: 1) using actual costs, 2) using State Tax Commission "Original Cost Multipliers for Valuing Personal Property," and 3) recognizing economic conditions with the use of system economic factors.

The procedures will provide for uniformity among Michigan's electric utilities and, therefore, will be in keeping with the spirit of the law.

RESCINDED