Centrally Valued Properties

Information in this publication is based upon laws and rules in effect at the time this publication was last updated. Should any content in this publication conflict with current laws or rules, the latter shall be controlling. If you have questions, contact the Department Property Tax Unit at (602) 716-6843 or ptcountyservices@azdor.gov.

Revised January 1, 1995

SUBSECTION A - CENTRALLY VALUED PROPERTIES

Properties Valued by the Department

Certain properties specified by statute are valued “centrally” by the Department of Revenue rather than the local county assessors. These properties are “centrally valued” because they are usually located in more than one county and/or because they present unique appraisal problems. Responsibility within the department for valuation of those properties is assigned to the Centrally Valued Properties Unit of the Division of Property Valuation and Equalization.

Industries which are centrally valued are as follows:

- Airlines (aircraft only)
- Electric utilities
- Gas distribution utilities
- Gas transmission pipelines
- Mines (producing and non-producing)
- Municipal district utilities
- Private rail car companies
- Producing oil and gas interests
- Railroads
- Telecommunications companies
- Water companies
- Sewer

Common characteristics of centrally valued properties are that they:

1. Have intercounty, interstate, sometimes international operations;
2. Are sometimes subject to regulation at the local level and the federal level;
3. Are of restrictive competition; and/or
4. Present special, complex appraisal problems.

The goal of central assessment is that these unique properties be valued uniformly throughout the state.

Operating property only

The statutes which authorize central assessment are Arizona Revised Statutes (A.R.S.), Sections 42-14001 through 42-14503. The property valued by the Department is as follows:

A.R.S. 42-14051 – 14054 Mines, mills and smelters
A.R.S. 42-14101 – 14106 Oil, gas and geothermal properties
A.R.S. 42-14151 – 14158 Gas, water, electric and sewer and wastewater utilities
A.R.S. 42-14201 – 14204 Pipelines
A.R.S. 42-14251 – 14257 Airline companies
A.R.S. 42-14301 – 14309 Private car companies
A.R.S. 42-14351 – 14358 Railroad companies
A.R.S. 42-14401 – 14404 Telecommunications companies
A.R.S. 42-14501 – 14503 Airport fuel delivery companies

Note that in almost every instance, the property which the Department is authorized to value is the "operating" or "producing" property. This means the property is "used in the operation of" the utility or mining property. Any property which is owned by a centrally valued taxpayer, but not used in the operation of the centrally valued business, should be valued and classified by the county assessor of the county in which the property is located. Usually, property of centrally valued taxpayers that is valued locally consists of vacant, non-operating land.

The operating (or producing) property that is centrally valued includes all of the land, improvements, and personal property used in the centrally valued business. Construction work in progress which is intended to be used in a centrally valued operation is valued and classified accordingly. The Department determines the total

Arizona value and then apportions that value to the individual counties and other taxing jurisdictions in which the property is located.

With the exception of airlines and private car companies, the values for all centrally valued properties are listed on the secured tax roll.

The values for airlines (aircraft) and private car companies are listed in reports which are prepared and maintained by the Centrally Valued Properties Unit. They are not included on either the secured or unsecured tax roll because they have no situs within particular counties or tax area codes. In addition, the tax levied upon these industries is a tax in lieu of all other taxes upon the property rather than an ad valorem property tax. The taxes are levied and collected by the comptroller's office of the Department of Revenue.

Land Values

Land values for centrally valued taxpayers are provided to the Department by the counties and are based on surrounding land values.

Centrally Valued Properties Calendar

Reporting forms are mailed to centrally valued taxpayers in January each year with instructions to complete the forms and return them to the Department by April 1. Along with the reporting form, companies are also required to submit annual federal regulatory reports, Securities and Exchange Commission 10-K reports, annual reports to stockholders, and Arizona Corporation Commission reports. The Department analyzes the information and data in all of these reports and taxpayers are notified of preliminary values during the second Friday in May.

Informal taxpayer conferences are held during the third week in May through June 12th. By June 15, taxpayers are notified of the Department's decisions. By the third Monday in June, abstracts are mailed to all counties advising them of the proportionate share of value for the centrally valued properties in their county.

Board of Tax Appeals' hearings are held with centrally valued taxpayers during July and final decisions must be rendered by the board by July 31.

On August 1, the Department transmits abstracts containing final values to all counties.

Legislated Valuation Methods

For some centrally valued industries, the valuation methods are prescribed by law. Those industries are:

1. non-producing mines,
2. electric utilities,
3. gas distribution utilities,
4. railroads,
5. pipelines, and
6. some telecommunication companies.

The statutory valuation procedures are described below.

For all other centrally valued industries, values are based upon standard appraisal methods and techniques.

Procedures For Valuing Non-Producing Mines

Arizona Revised Statutes 42-11001(12) defines producing mine or mining claim as **"...any mine or mining claim from which any coal, mineral or mineral substance, other than clay, sand, gravel, building stone or any mineral or mineral substance normally processed into artificial stone, has been extracted for commercial purposes at any time during a period of one year prior to the first Monday in January of the tax year."** Any producing mines or mining claims that satisfy this definition are legal class one properties.

A producing mine is comprised of the land utilized for mining purposes together with the structures and facilities necessary to sustain mining operations. A producing mine also includes equipment and facilities required to extract, prepare, and handle ores or minerals mined for commercial purposes. Equipment required to prepare the materials for extracting, handling, loading, and processing, includes mine plants, concentrators, smelters, chemical plants, and all associated facilities used in producing metallic or nonmetallic products. Fabricating plants such as rod plants are not a part of a producing mine. Construction work in progress is part of the producing mine.

When mining operations cease and a mine is shut down and not put to any other use, the real and personal property associated with the mining operation will continue to be valued by the Department for a period of three years. The non-operating mine will be retained in legal class one for the tax year following the year in which mining operations are terminated. The second and third tax years after the year in which mining operations are terminated, the valuation and classification will be based on the use of the property at that time.

When the real and/or personal property associated with the shut down mining operation is not being used for mining or any other specific purpose, after three (3) years it will be classified as legal class one property and valued by the County Assessor.

Procedures for Valuing Electric and Gas Distribution Utilities

The term "electric and gas utilities" includes regulated, investor-owned electric utility properties, member-owned rural electric cooperatives, and regulated, natural gas distribution companies.

The investor-owned electric utility companies and the natural gas distribution companies are regulated by the Arizona Corporation Commission (ACC) and by the Federal Energy Regulatory Commission (FERC). The ACC regulates the intrastate activities of the company and the FERC regulates the interstate activities of the company.

The member-owned rural electric cooperatives are regulated by the ACC concerning their intrastate operations and by the Rural Electrification Administration (REA) concerning low-interest loans, accounting, and capital expenditures.

The cooperatives are valued based upon standard appraisal methods. The electric and gas distribution companies are valued based upon a statutory method.

The statutory valuation method prescribed for electric and gas distribution utilities is based upon depreciated cost and is calculated for the various plant components as follows:

	Net cost of plant in service
+	Net cost of environmental protection facilities x 50%
+	Construction work in progress x 50%
+	Total cost of materials and supplies
+	Net cost of leased operating property
=	Full Cash Value

This procedure is fully described in A.R.S. 42-14154.

Procedures for Valuing Pipelines

A pipeline company is defined in Department of Revenue rule R15-4-502.25 as **"any person, partnership, or corporation engaged in the business of producing, storing, selling, or transporting through a pipeline system, oil, natural gas, processed gas, manufactured gas, petroleum products, coal, or other products, within, through, into, or from the state"**

The valuation method for pipelines is prescribed by law in A.R.S. 42-14201.

In general, the statutory valuation procedure is to apply a current year "value change factor" to the prior year's value.

The “value change factor” is the average of two factors: the “income change factor” and the “asset change factor”.

The “income change factor” is computed by dividing the change in earnings by the change in the capitalization rate. The change in earnings is based upon the average earnings for the three years immediately preceding the current tax year, divided by the average earnings for the three years immediately preceding the previous tax year.

The “asset change factor” reflects the change in plant assets from the prior year to the current year.

After the “value change factor” is applied to the prior year’s value, construction work in progress, operating leased property, and materials and supplies are added to the adjusted prior year’s value to determine the current years full cash value.