

MEMO

Date: June 19, 2019

To: George Brown, Property Tax Division Administrator

From: Alan Dornfest, Property Tax Policy Bureau Chief

Subject: Recommendations for equalization of railroad assessments for 2019

I have completed analysis and review of ratio studies on commercial and industrial property categories in counties with railroad property subject to assessment by the Tax Commission. The studies conducted were for the counties comprising the area in which each railroad has property and value to be apportioned. For example, if a railroad were present in 10 counties, the commercial and industrial sales from 2018 ratio studies in those 10 counties were combined and used for the analysis.

My recommendations are based on the following assertions:

1. The Commission intends its values to both reflect market value and to be equitable and in compliance with the federal “4-Rs” Act. This Act requires commercial and industrial property to be assessed not more than 5% lower than railroad property.
2. The Commission intends the equalization process to be as consistent as possible with the equalization process employed with respect to locally assessed property categories. Accordingly, once the Commission is statistically certain that the level of assessment of commercial and industrial property in the counties in which a railroad is present is below 95% of market value, adjustments have been developed to reduce the assessed value of the railroad to the level of assessment of the commercial and industrial property.
3. Because the equity question relates to taxes and not to numbers of parcels, legal staff has advised that we use statistical measurements that best reflect the level of assessment weighted by value. In developing the weighted mean ratio, the ratio on a property with a \$1 million assessed value influences the statistic ten times as much as the ratio on a property with a \$100,000 assessed value. Hence, to achieve value-based equity, the weighted mean is the most appropriate statistical measure of level.
4. In developing the samples, value outliers, that may be distortive, were reviewed and identified. In some cases, notably when the likelihood of occurrence in the population was substantially less than the proportion of the sample reflected, the sale was trimmed as a probably non representative outlier. In these cases, statistical certainty of an unacceptably low level of assessment of commercial and industrial property is based on failure of the upper 90% confidence interval limit around the

weighted mean of the trimmed sample to include 95%. The differential between the weight in the sample and the expected weight in the population, had the trimmed sales been retained is shown in the table including the recommended adjustments. A summary table showing the effect of trimming decisions is found in Attachment A. The analysis that removed the smallest number of significantly non representative sales served as the basis for the adjustment recommendation

5. Provided the upper confidence interval limit around the weighted mean ratio in the trimmed sample is within 5% of market value (ie: no lower than 95%), no adjustment in otherwise determined assessed values for railroad property is recommended. This is the case, as well, for Montana Rail Link, where the commercial and industrial weighted mean level of assessment in the sales sample exceeds 100%.
6. If the upper confidence interval limit is below 95%, the difference between 100% and the computed weighted mean of the trimmed sample is recommended as a percentage to be subtracted from the otherwise determined Idaho taxable value for the railroad. The decimal equivalent of the difference is computed by dividing the weighted mean by 100% and subtracting the answer from 1. This is converted to a percentage and the railroad value is to be reduced by that percentage.
7. For comparison purposes, the most current ratio study information, as developed for the final 2018 ratio study, has been used. No study specifically for 2019 is available. The 2018 final ratio study is the best and only information currently available.
8. For the three railroads for which adjustments are being recommended, confidence intervals confirm the statistical certainty that the level of assessment of commercial and industrial property in the area of the state to which each railroad's property is to be apportioned is below 95% of market value.

ualization calculations highlighted.