REFERENCE TITLE: water utility systems; valuation

State of Arizona
Senate
Forty-eighth Legislature
First Regular Session
2007

SB 1077

Introduced by
Senator Waring

AN ACT

AMENDING TITLE 42, CHAPTER 13, ARIZONA REVISED STATUTES, BY ADDING ARTICLE 11; AMENDING SECTIONS 42-12001, 42-14151 AND 42-14156, ARIZONA REVISED STATUTES; RELATING TO PROPERTY TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 42-12001, Arizona Revised Statutes, is amended to read:

42-12001. Class one property

For THE purposes of taxation, class one is established consisting of the following subclasses:

1. Producing mines and mining claims, personal property used on mines and mining claims, improvements to mines and mining claims and mills and smelters operated in conjunction with mines and mining claims that are valued at full cash value pursuant to section 42-14053.

2. Standing timber that is valued at full cash value.

3. Real and personal property of gas distribution companies, electric transmission companies, electric distribution companies, combination gas and electric transmission and distribution companies, companies engaged in the generation of electricity and electric cooperatives that are valued at full cash value pursuant to section 42-14151.

4. Real and personal property of airport fuel delivery companies that are valued pursuant to section 42-14503.

5. Real and personal property that is used by producing oil, gas and geothermal resource interests that are valued at full cash value pursuant to section 42-14102.

6. Real and personal property of ~~water,~~ sewer and wastewater utility companies that are valued at full cash value pursuant to section 42-14151.

7. Real and personal property of pipeline companies that are valued at full cash value pursuant to section 42-14201.

8. Real and personal property of shopping centers that are valued at full cash value or pursuant to chapter 13, article 5 of this title, as applicable.

9. Real and personal property of golf courses that are valued at full cash value or pursuant to chapter 13, article 4 of this title.

10. All property, both real and personal, of manufacturers, assemblers or fabricators valued under the provisions of this title.

11. Real and personal property that is used in communications transmission facilities and that provides public telephone or telecommunications exchange or interexchange access for compensation to effect two-way communication to, from, through or within this state.

12. Real property and improvements that are devoted to any other commercial or industrial use, other than property that is specifically included in another class described in this article, and that are valued at full cash value.

13. Personal property that is devoted to any other commercial or industrial use, other than property that is specifically included in another class described in this article, and that is valued at full cash value.

Sec. 2. Title 42, chapter 13, Arizona Revised Statutes, is amended by adding article 11, to read:

ARTICLE 11. WATER UTILITY SYSTEMS

42-13501. Definition of water utility systems

IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES, "WATER UTILITY SYSTEM" INCLUDES ALL REAL AND PERSONAL PROPERTY OF A SYSTEM THAT IS USED IN CONNECTION WITH THE DIVERSION, DEVELOPMENT, STORAGE, DISTRIBUTION AND SALE OF WATER FOR BENEFICIAL USES FOR COMPENSATION AND THAT IS REGULATED BY THE CORPORATION COMMISSION.

42-13502. Valuation of water utility systems

LAND, BUILDINGS, IMPROVEMENTS AND PERSONAL PROPERTY USED FOR A WATER UTILITY SYSTEM SHALL BE VALUED AT FIVE HUNDRED DOLLARS TOTAL, REGARDLESS OF THE NUMBER OF PARCELS INVOLVED. THE COUNTY ASSESSOR MAY DIVIDE THE ASSESSMENT AMOUNT PER PARCEL TO DEPICT AN ASSESSMENT FOR LAND AND AN ASSESSMENT FOR BUILDINGS AND IMPROVEMENTS IF THE TOTAL ASSESSMENT FOR ALL PARCELS DOES NOT EXCEED FIVE HUNDRED DOLLARS.

Sec. 3. Section 42-14151, Arizona Revised Statutes, is amended to read:

42-14151. Annual determination of valuation; definition

A. The department shall annually determine the valuation, in the manner prescribed by this article, of all property, owned or leased, and used by taxpayers in the following businesses:

1. Operation of a natural gas distribution system.

~~2. Operation of a water utility system.~~

~~3.~~ 2. Operation of a sewer system or wastewater treatment facility.

~~4.~~ 3. Operation of an electric generation facility.

~~5.~~ 4. Operation of an electric transmission or distribution system.

B. For the purposes of this article, "generation of electricity" means the process of taking a source of energy, including coal, natural gas, oil, nuclear fuel or renewable sources and converting the energy into electricity to be delivered to customers through a transmission and distribution system.

Sec. 4. Section 42-14156, Arizona Revised Statutes, is amended to read:

42-14156. Computing valuation of electric generation facilities; definitions

A. The valuation of electric generation facilities referred to in section 42-14151, subsection A, paragraph ~~4~~ 3 shall be determined as follows:

1. The value of land used by the facility shall be determined by the county assessor in the county in which the property is located and transmitted to the department.

2. The valuation of real property improvements used in operating the facility is the cost multiplied by valuation factors prescribed by tables adopted by the department.

3. The valuation of personal property used in operating the facility is the cost multiplied by the valuation factors as prescribed by tables adopted by the department, adjusted as follows:

(a) For the first year of assessment, the department shall use thirty-five per cent of the scheduled depreciated value.

(b) For the second year of assessment, the department shall use fifty-one per cent of the scheduled depreciated value.

(c) For the third year of assessment, the department shall use sixty-seven per cent of the scheduled depreciated value.

(d) For the fourth year of assessment, the department shall use eighty-three per cent of the scheduled depreciated value.

(e) For the fifth and subsequent years of assessment, the department shall use the scheduled depreciated value as prescribed in the department's guidelines.

4. In addition to the computation prescribed in paragraphs 2 and 3 of this subsection, the taxpayer may submit documentation showing the need for, and the department shall consider, an additional adjustment to recognize obsolescence using standard appraisal methods and techniques.

5. The valuation prescribed in paragraph 2 of this subsection shall not reduce the valuation below ten per cent of the cost of the real property improvements. The valuation prescribed in paragraph 3 of this subsection shall not reduce the valuation below ten per cent of the cost of the personal property.

6. The following apply in determining cost for the purposes of this subsection:

(a) "Cost" means the cost of constructing the property or acquiring the property in an arm's length transaction.

(b) The cost of personal property is the invoice cost of the personal property, the cost of transporting the property to the facility site and the cost of labor to install the property, plus any transaction privilege or use taxes paid.

(c) The cost of leased property is the lessor's cost of the property, except that in the case of a lease financing transaction, the cost is the actual cost of construction based on the invoice cost similar to any other type of financing.

(d) In the case of a facility that is acquired from another taxpayer:

(i) If, after the acquisition, the buyer has possession of the cost information, the valuation of the facility shall continue based on the seller's cost as if there were no change in ownership.

(ii) If, after the acquisition, the buyer does not possess the cost information, the acquisition cost in an arm's length transaction shall be used.

(e) For generation facilities that were in service before January 1, 2001, costs incurred before January 1, 2002 shall be computed in accordance with section 42-14158. For these facilities, all costs incurred on or after

January 1, 2002 shall be reported in accordance with subdivisions (a) through (d) of this paragraph.

7. The department shall not value personal property construction work in progress until the property is first placed in commercial service. For the purposes of this paragraph, "commercial service" means:

(a) For machinery and equipment used in the generation of electricity being valued and placed on the tax roll for the first time, the official assumption of operation and ownership of the machinery and equipment from the contractor by the plant operator.

(b) For machinery and equipment added to existing electric generation facilities, that the construction work has progressed to a sufficient degree for the machinery and equipment to be useful for the purpose for which it is being constructed.

(c) For machinery and equipment related to self-constructed facilities, that the construction work has progressed to a sufficient degree for the machinery and equipment to be useful for the purpose for which it is being constructed.

B. For the purposes of this section:

1. "Personal property" means all tangible property except for land and real property improvements as defined in this section. Personal property includes foundations or supports for the machinery or apparatus for which they are provided, including water cooling towers.

2. "Real property improvements" means buildings, including administration buildings, maintenance warehouses and guard shacks, water retention ponds, sewage treatment ponds, reservoirs, sidewalks, drives, curbs, parking lots, tunnels, duct banks, canals, fencing and landscaping.

Sec. 5. Transition

This act does not affect:

1. The validity, collection or enforcement of outstanding tax liabilities of water utility systems incurred under prior law.

2. The validity and application of property valuations determined pursuant to law in effect before the effective date of this act and applied for use in the 2008 tax year.

Sec. 6. Effective date

This act is effective from and after December 31, 2007 and applies beginning with the 2008 valuation year.