RA 26-359

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: 701—Chapters 106 and 107
"Centrally Assessed Properties"

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.17(2)"c," 434.8, 434.9, 434.11, 438.3(9) and 438.8 through 438.10

State or federal law(s) implemented by the rulemaking: Iowa Code chapters 428, 434, 437, and 438

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

November 18, 2026 2 to 3 p.m.	Via videoconference call: meet.google.com/egs-ucjg-frv

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis, which must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

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Purpose and Summary

The purpose of this proposed rulemaking is to rescind and adopt a new Chapter 106 and rescind Chapter 107 to locate in Chapter 106 all central assessment regulations. These proposed rules describe the Department's interpretation of the underlying statutes on the central assessment of railroads, pipelines, and other utility companies. These proposed rules are intended to help the public understand the assessment of these properties. The Department proposes revisions to remove portions of the rules that the Department determined are obsolete, unnecessary, or duplicative of statutory language as required by Executive Order 10. Further, the Department proposes revisions to the chapter to add clarity and better organization to aid the public's understanding of the assessment of centrally assessed properties.

Analysis of Impact

1. **Persons affected by the proposed rulemaking:**

- **Classes of persons that will bear the costs of the proposed rulemaking:**

This proposed rulemaking does not create costs for any classes of persons.

- **Classes of persons that will benefit from the proposed rulemaking:**

Property owners will benefit from a greater understanding of the property tax administration for centrally assessed properties. Local governments will benefit from a greater understanding of whether properties are subject to local assessment or central assessment.

2. **Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:**

- **Quantitative description of impact:**

There is no economic impact associated with these proposed rules beyond what is contained in statute.

- **Qualitative description of impact:**

The qualitative benefits of this proposed rulemaking beyond what is already provided in statute are the value of having a clear understanding of centrally assessed properties in order to ensure a consistent application of the law across the state and eliminate any confusion that could prevent property from being properly assessed.

3. **Costs to the State:**

- **Implementation and enforcement costs borne by the agency or any other agency:**

There are no costs to the State beyond what is already required to administer the relevant statutes.

- **Anticipated effect on State revenues:**

A greater understanding of centrally assessed properties will ensure that these properties are equitably assessed.

4. **Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:**

The cost of not having rules is greater confusion about assessment methodologies applicable to centrally assessed properties, which could lead to improper assessment and the improper amount of tax being levied. There are no costs associated with this proposed rulemaking.

5. **Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:**

This proposed rulemaking is not costly or intrusive.

6. **Alternative methods considered by the agency:**

- **Description of any alternative methods that were seriously considered by the agency:**

The Department did not seriously consider alternative methods.

- **Reasons why alternative methods were rejected in favor of the proposed rulemaking:**

Failing to have rules on central assessments would lead to confusion, which could cause erroneous assessment. The rules were updated to remove outdated and duplicative language.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This proposed rulemaking may have an impact on a small business if the small business is subject to central assessment. The impact on the small business would be ensuring that the small business's centrally assessed properties are assessed equitably and as required by Iowa law.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 106 and adopt the following **new** chapter in lieu thereof:

CHAPTER 106
CENTRALLY ASSESSED PROPERTIES

701—106.1(434) Definitions of terms. The following definitions are applicable to this chapter:

"Comparable sales" means actual sales transactions, between willing buyers and willing sellers, neither being under any compulsion to buy or sell, of property that is similar in purpose, function and design to the property to which the comparison is being made.

The sale of a portion of a unit that is nominally similar in purpose and function to the unit being valued shall not be considered a comparable sale. However, if there is evidence other than the terms of the sale itself that the sales price was based on some unit of measurement that is common both to the property sold and the property being valued and that is not affected by the fact that less than the entire unit is being sold, then the sale may be considered a comparable sale. For example, (1) the price per mile of track and (2) the price per square foot of the property.

"Cost approach to unit value" means the estimate of value determined by combining the original cost less a depreciation allowance for the operating property of a company.

"Income approach to unit value" means the estimate of unit market value obtained by dividing an appropriate income stream by an appropriate and compatible discount rate.

"Lease" includes but is not limited to capital leases, finance leases, and operating leases.

"Nonoperating property" means all property owned by a company not defined as "operating property."

"Operating property" means all property owned by or leased to a company, not otherwise taxed separately or made nontaxable by law, which is necessary to and without which the railroad or utility company could not perform the activities for which the railroad or utility is formed, such as (by way of illustration and not limitation) transporting freight over rail. With regard to property whose identity as "operating property" or "nonoperating property" is not clearly ascertainable, the property shall be considered operating property if the railroad or utility could not reasonably be expected to perform the referenced activities in the absence of such property.

"Original cost" means the actual cost of the property to its present owner, not the first cost at the time it was originally constructed and placed in service.

"Railroad" means and includes all individuals or corporations engaged in the operation of a railway in this state and subject to valuation pursuant to Iowa Code chapter 434.

"Replacement cost new less depreciation" or *"RCNLD"* means the cost to the present owner of acquiring or constructing at current prices a property that is the functional equivalent of an existing property less an allowance for depreciation.

"Respondent" includes the railroad or utility company whose property is to be valued.

"Stock and debt approach to unit value" means the estimate of unit market value determined by combining the estimate of market value of the stock; debt; current liabilities; other liabilities, including leases; and deferred credits associated with the operating property of a railroad or utility company.

"Unit value" or *"unit market value"* means the market value arrived at by using the appraisal method of valuing an entire operating property, considered as a whole and capable of performing the function for which it was created.

"Utility company" means and includes all persons engaged in the operating of gasworks, waterworks, pipelines, electric transmission lines, and electric light or power plants as set forth in Iowa Code chapters 428, 437, and 438. Any utility company subject to taxation under Iowa Code chapter 437A or 437B shall not be subject to valuation under this chapter.

This rule is intended to implement Iowa Code chapters 434, 437, and 438 and section 428.24.

701—106.2(434) Filing of annual reports.

106.2(1) Annual reports, including any additional schedules or attachments, required to be filed by the reporting company can be filed in GovConnectIowa.

106.2(2) The department may require the filing of additional information if deemed necessary. The respondent shall provide the additional information to the department in a timely manner.

This rule is intended to implement Iowa Code chapters 434, 437, and 438 and section 428.24.

701—106.3(434) Comparable sales. Sale prices of comparable property in normal transactions shall be taken into consideration in arriving at its market value. In the event comparable sales are not available, the market value of operating property shall be determined by utilizing the three recognized unit approaches to value (i.e., stock and debt approach, income capitalization approach and the cost approach).

This rule is intended to implement Iowa Code sections 428.29, 434.15, 437.6, and 438.13.

701—106.4(434) Stock and debt approach to unit value.

106.4(1) The stock and debt approach to unit value determines the market value of the operating property by combining the market values of the common stock, preferred stock, debt, current liabilities, other liabilities, leases, and deferred credits associated with the operating property of the company.

106.4(2) Market value of debt.

a. The market value of the long-term debt associated with the operating property is calculated by first determining a ratio based on book values. The numerator is the operating property, and the denominator is the total property of the company. This ratio is then multiplied by the gross market value of the long-term debt, and the result is the market value of the long-term debt associated with the operating property.

b. The market value of publicly traded debt is determined by utilizing an average of the monthly high and low value of the debt for the 12 months preceding the valuation date. The values shall be obtained by reference to any acceptable reporter of the market on which the securities are traded. If all or some of the securities are not publicly traded, the value of the securities shall be determined by appropriate comparable securities. The comparable securities shall be publicly traded, have a similar maturity date and coupon rate, and risk indicators similar to the untraded security. In each instance, the company shall provide the department a statement of the market value of all the company's securities and an explanation of how that market value was derived, including the identity of any comparable securities utilized. If all or some of the securities are not publicly traded and there are no appropriate comparable securities, the company shall provide the department with the company's own determination of the fair market value of the company's untraded securities together with a complete explanation of why the foregoing rule was not used and a detailed explanation of the method used.

106.4(3) Market value of stock.

a. The market value of the preferred stock associated with the operating property is calculated by multiplying the ratio determined in paragraph 106.4(2)*"a"* by the gross market value of the preferred stock.

b. The market value of publicly traded shares of preferred stock is determined by utilizing an average of the monthly high and low value of the preferred stock for the 12 months preceding the valuation date. The values to be utilized shall be obtained by reference to any acceptable reporter of the market on which the preferred stock is traded. If all or some series of the preferred stock are not publicly traded, the value of such preferred stock shall be determined by appropriate comparable

securities. The comparable securities shall be publicly traded, have the same or a similar dividend rate, and have risk indicators similar to the untraded preferred stock. In each instance, the company shall provide to the department a statement of the market value of the company's preferred stock and an explanation of how that market value was derived, including the identity of any comparable securities utilized. The company shall provide the department with the company's own determination of the fair market value of the company's untraded securities together with a complete explanation of why the foregoing rule was not used and a detailed explanation of the method used.

106.4(4) The market value of the common equity of a company associated with the company's operating property is determined by capitalizing the income available to the common equity holders from the operating property by an appropriate and compatible common equity return rate.

a. The calculation of the income to be capitalized begins with the company's net income after taxes but before interest charges and preferred dividends for the 12-month period preceding the valuation date determined from the company's regulatory report, or if no regulatory report is filed, from the audited financial statements of the company. In the event the company has no income or has a negative income, an alternative method may be used to determine the market value of the common equity.

b. For rate base regulated companies that do not earn a return on construction-work-in-progress, the income determined in subrule 106.4(4) shall be increased by the amount of income associated with the construction-work-in-progress that will be placed into service within one year of the assessment date. The income associated with the construction-work-in-progress shall be determined by multiplying the cost of said construction by the latest overall cost of capital as determined by the regulatory agency.

c. The income determined in paragraph 106.4(4)*"a"* shall be adjusted by deducting any net income received from nonoperating property and shall be increased to account for any net loss created by any nonoperating property.

d. The income determined in paragraph 106.4(4)*"a"* shall be reduced by that portion of the preferred dividends serviced by the income generated by the operating property, which is calculated by multiplying the total preferred dividend requirement by the ratio determined in subrule 106.4(3).

e. The income determined in paragraph 106.4(4)*"a"* shall be reduced by that portion of the debt service provided by the income generated by the operating property, which is calculated by multiplying the total debt service by the ratio determined in subrule 106.4(2).

f. If there are any other interest payments required, a determination shall be made as to whether the underlying obligation was used to purchase operating assets or nonoperating assets. If no direct determination can be made, the interest payment shall be allocated in the same fashion as the debt service and preferred dividends. If the underlying obligation can be shown to be associated particularly, or in some specific proportion, to operating property or nonoperating property, the interest payment shall be allocated either entirely or in such proportion to operating property or nonoperating property. It shall be the obligation of the company, in its reports to the department, to identify and detail any interest payments that are particularly associated with operating property or nonoperating property, and if the company fails to do so, the department may determine that all such payments may be allocated between operating property and nonoperating property in the same ratio as is the debt service and preferred stock dividends (more information is contained in subrules 106.4(2) and 106.4(3)).

g. Any extraordinary item affecting the income determined shall be eliminated in the calculation of the income under this rule. For pipelines and utility companies, any construction-work-in-progress not placed into service within one year of the assessment date shall be separately valued by the department.

h. The income determined in paragraph 106.4(4)*"a"* for pipeline companies shall be further reduced by deducting the current year net adjustment expense for investment tax credits.

i. The equity rate of return for the company shall be determined by the use of the capital asset pricing model; although, where appropriate, discounted cashflow models may be utilized as

an alternative. Only in circumstances where these models are not able to be utilized will reliance be placed on a risk premium model or upon an earnings-price ratio, or other similar model, for determining the expected market rate of return on equity.

j. The income attributable to operating property available to the common equity holder as determined in paragraphs 106.4(4)*"a"* through *"g"* shall then be divided by the equity rate as determined in paragraph 106.4(4)*"i,"* and the result shall be the market value of the common equity associated with the operating property.

106.4(5) In the event the company has entered into finance leases of operating property, the market value of the property leased shall be determined by calculating the net present value of the leases or net book value of the leases. The net present value shall be accomplished by discounting the future lease payments for each lease. The following is offered as an illustration of the calculation of such market value:

Length of Lease	Annual Lease Payments
1. Lease (a) 5 years	$1,500,000
2. Lease (b) 7 years	$ 800,000
3. Lease (c) 3 years	$ 120,000

Net present value of leases (assuming 8 percent rate)

Lease (a) = $1{,}500{,}000 \div (1.08)^1 + 1{,}500{,}000 \div (1.08)^2 \ldots 1{,}500{,}000 \div (1.08)^5$

Lease (b) = $800{,}000 \div (1.08)^1 + 800{,}000 \div (1.08)^2 \ldots 800{,}000 \div (1.08)^7$

Lease (c) = $120{,}000 \div (1.08)^1 + 120{,}000 \div (1.08)^2 \ldots 120{,}000 \div (1.08)^3$

Net Present Value of Lease (a)	=	$ 5,989,065
Net Present Value of Lease (b)	=	$ 4,165,096
Net Present Value of Lease (c)	=	$ 309,251
Total Lease Values		$10,463,412

The discount rate is equal to the company's overall market debt rate of return.

106.4(6) In the event the company has other sources of capital, including but not limited to other liabilities, finance leases, and accumulated investment tax credits that cannot be identified as having been utilized to purchase specific assets, the market value of the sources of capital shall be allocated between operating assets and nonoperating assets in the same manner as long-term debt or preferred stock. Current liabilities and accumulated deferred income taxes should not be included in this calculation. The book value of accumulated deferred income taxes should be deducted from the market value of the stock and debt approach before making this calculation. Current liabilities should be deducted from current assets, and the resulting figure, if positive, should be added to the market value of the stock and debt approach and, if negative, should be deducted. The resulting figure, "net working capital," shall be allocated in the same manner as long-term debt or preferred stock (more information is contained in subrules 106.4(2) and 106.4(3)). If any source of capital was created specifically for the purchase of property that can be identified as operating property or nonoperating property, the company must identify the sources of capital in its annual report to the department, together with the appropriate evidence. If the company fails to provide the information, the department may determine that the sources of capital may be allocated in the same manner as long-term debt or preferred stock (more information is contained in subrules 106.4(2) and 106.4(3)).

The market value of any source of capital, in the absence of evidence to the contrary submitted by the company with its annual report, shall be the book value.

106.4(7) The value determined by summing the portions of the enumerated sources of capital associated with the operating property of the company provided in subrules 106.4(2) through 106.4(6) shall be the unit value of the operating properties determined by the stock and debt approach to unit value.

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.5(434) Income capitalization approach to unit value.

106.5(1) The income capitalization approach to unit value determines the market value of the operating property by dividing the income stream generated by the operating assets by a market-derived capitalization rate based on the costs of the various sources of capital utilized or available for use to purchase the assets generating the income stream. The purpose and intent of the income indicator of value is to match income with sources of capital, and therefore, every source of capital used or available to be used to purchase assets should be reflected in the capitalization rate determination as well as all operating income.

a. The net operating income to be capitalized shall be a weighted average net operating income. The weighted average net operating income shall consist of an average of the three 12-month periods immediately preceding the valuation date. Each of the three preceding 12-month periods shall be weighted by multiplying the first preceding period by 60 percent, the second preceding period by 30 percent, and the third preceding period by 10 percent. There shall be no adjustment for the company's current-year deferred income taxes to this income stream. The income stream for pipeline companies shall be further reduced by deducting the current year net adjustment expense for investment tax credits.

If the utility company has no income or has a negative income, the indicator of value set forth in this subrule shall not be utilized.

b. The department may also utilize a free cash flow model in calculating the operating income to be capitalized. The "free cash flow model" shall consist of an average of the five 12-month periods immediately preceding the valuation date. Each of the five preceding 12-month periods shall be given equal weighting in the calculation of the five-year average operating income to be capitalized. Each year, the net operating income shall be adjusted by adding the current-year deferred income taxes associated with maintenance expenditures, adding the current-year depreciation expense, and subtracting the current-year capital expenditures necessary to maintain the plant.

c. The department may give consideration to both calculations of operating income as described in this subrule to determine the operating income to be capitalized. The department may also consider, in both calculations, adjustments for extraordinary, unusual, and infrequent items. These adjustments would not be expected to occur annually and are different from the typical business operations. In the event the company has no income or has a negative income, the indicator of value set forth in this subrule shall not be utilized.

106.5(2) If any operating property is clearly not income producing and, therefore, is not reflected in the income stream, the value of that asset shall be determined separately and added to the value of the other operating property as determined using the income indicator of value. The capitalization rate shall be adjusted, if necessary, for the market rate of return for the sources of capital utilized to purchase such non-income-producing properties where the sources can be clearly identified; otherwise, the cost of the sources of capital shall be presumed to be equal to the overall market-weighted costs of the other sources of capital.

106.5(3) If the company is one that can earn a return on assets purchased with sources of capital, excluding the company's deferred income taxes, the income will reflect the earnings on those assets, and as a consequence, a separate adjustment to the capitalization rate is required. The capitalization rate shall be determined by utilizing, where appropriate, market rates of return weighted according to

a market-determined capital structure. All sources of capital shall be considered in the capital structure as well as market costs associated with each source of capital; otherwise, the cost of the sources of capital shall be presumed to be equal to the overall market-weighted costs of the identified sources of capital. The following is an example of the application of this rule.

	(1) Market Value	(2) Market Rate of Return	(3) % to Total	(4) Component (Col. 2 × Col. 3)
Common Stock	60,000	15%	66.67	10.00
Preferred Stock	5,000	13%	5.55	.72
Debt	25,000	12%	27.78	3.33
	90,000		100.00	14.05

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.6(434) Cost approach to unit value. The cost approach to unit value shall be determined by combining the cost of the operating properties of the company and deducting an allowance for depreciation calculated on a straight-line basis. Other forms of depreciation may be deducted if found to apply.

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.7(434) Correlation.

106.7(1) In making a final determination of value for railroad companies, the department shall give consideration to each of the methodologies described in these rules, the use of which will result in the determination of the fair and reasonable market value of the railroad company's entire operating property. The stock and debt indicator of value and the income indicator of value shall each be weighted at 50 percent. In this particular circumstance, when the department utilizes the stock and debt indicator and the income indicator in the correlation process, the cost indicator will be given no weighting. If circumstances dictate that a particular method is inappropriate for a specific company, that method shall be given little or no weight in the final correlation of value.

106.7(2) The correlation for pipeline and water companies will consider the cost indicator to be the most useful, the income indicator the next most useful, and the stock and debt indicator the least useful. In making the final determination of value, the department will weigh the stock and debt indicator of value at 10 percent, the income indicator of value at 40 percent and the cost indicator of value at 50 percent.

106.7(3) The correlation for steam companies will consider the cost indicator to be most useful.

106.7(4) The correlation for electric cooperative companies will consider the cost indicator to be most useful.

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.8(434) Allocation of unit value to state.

106.8(1) *Allocation by the department of railroad companies.* The department shall allocate that portion of the total unit value of the railroad company's operating property to the state of Iowa based on factors that are representative of the ratio that the railroad company's property and activity in the state of Iowa bear to the railroad company's total property and activity. These factors are:

a. Gross operating revenue weighted 40 percent.

b. All track mileage weighted 35 percent.

c. Revenue traffic units weighted 15 percent.

d. Car and locomotive mileage weighted 10 percent.

106.8(2) *Allocation by the department of utility companies.*

a. The department shall allocate that portion of the total unit value of the utility company's operating property to the state of Iowa based on factors that are representative of the ratio that the utility company's property and activity in the state of Iowa bear to the utility company's total property and activity. These factors are:

(1) Gross operating property weighted 75 percent.

(2) Gross operating revenues, or MCF miles, or barrel miles weighted 25 percent.

b. The selection of the property and use factor to be utilized shall depend on the type of utility being valued.

106.8(3) *Alternative methods.* In the event that the allocation prescribed by subrule 106.8(1) or 106.8(2) does not fairly and reasonably allocate unit value of the company's operating property to the state of Iowa, the department shall consider such other factors as the department deems appropriate by the exercise of sound appraisal judgment.

This rule is intended to implement Iowa Code sections 428.24 and 434.15 and chapters 437 and 438.

701—106.9(434) Railroad valuation exclusions. From the determination of value pursuant to rule 701—106.7(434), there shall be a deduction for:

106.9(1) Pollution-control or recycling property as provided in Iowa Code section 427.1(19).

106.9(2) Interstate bridges and other locally assessed property. Locally assessed property shall mean all property subject to an assessing authority pursuant to Iowa Code section 441.54. The respondent shall supply a schedule providing the actual value as determined by the local assessor on or nearest to the current assessment date, including parcel numbers for all locally assessed property.

106.9(3) The value of Iowa personal property. The computation for the percentage of personal property shall be equal to the ratio of the net book value of personal property divided by the net book value of the total property.

106.9(4) The intangible value. The deduction shall be equal to 6.6 percent of the correlated system value for the stock and debt indicator and the income indicator.

This rule is intended to implement Iowa Code sections 427.1(19), 434.15 and 434.20.

ITEM 2. Rescind and reserve **701—Chapter 107**.