

WATER COMPANIES

- I. **Legal Requirements (Title 68, Oklahoma Statutes 2001, § 2848) Railroads, air carriers and public service corporations - Sworn list of schedules.**
 - A. Every railroad, air carrier and public service corporation organized, existing, or doing business in this state, shall, on or before April 15 of each year, return sworn lists or schedules of its taxable property to the Oklahoma Tax Commission as provided by law, or as may be required by the Commission; and such property shall be listed with reference to the amount, kind, and value as of the first day of January of the year in which it is listed; and said property shall be subject to taxation for county, municipal, public school, and other purposes to the same extent as the real and personal property of individuals.
 - B. The Oklahoma Tax Commission requests certain financial data be included on any statement or schedule including, but not limited to:
 1. List of amount, kind and value of all taxable property as of January 1;
 2. The amount of capital stock authorized, and the number of shares into which such capital stock is divided, (shares outstanding);
 3. The amount of capital stock paid up;
 4. The market value of such stock, or if no market value, then the actual value of the shares of stock;
 5. The amount of bonded indebtedness;
 6. A notarized affidavit indicating the filing to be true, correct, and complete, a company organization synopsis, Oklahoma exempt property worksheet, a system map, and for each state or non United States province where your company has situs, its original cost inclusive of construction work in progress, with accumulated depreciation (OTC Forms 902-1 thru 902-6);
 7. Property allocation factors including water system land, water system buildings, water tanks, water wells, water pumps, water treatment plants, water lines, water services, water meters in service, fire hydrants, other water plant property, furniture and fixtures, automobiles and trucks, tools, shop, garage and lab equipment, power operated equipment, materials, supplies, warehouse stock and meters in storage, accumulated depreciation, exempt property original cost, the number of active metered and un-metered customers, the number of inactive customers and the year the system was built (OTC Form 903-W);
 8. A detailed list of all property in each county by city or town, school district and area (vo-tech) school district. The list must be in sufficient detail (including legal descriptions for land and structures) for taxing agents to make proper identification. This form must be filed in duplicate (one copy with original cost, one without original cost), the copy without original cost will be forwarded to the respective county (OTC Form 913-DV);
 9. A completed distribution database/computer printout listing, or for new taxing jurisdictions OTC Form 913-DV, identifying the respective taxing jurisdictions where the company in question has situs;

10. Financial data as of January 1, including selected balance sheet and income statement items, total amount of debt and preferred stock issues, market value of common stock shown by high and low prices each month for the reporting or parent company as is applicable, number of common stock shares outstanding, allocation factors from the parent company if parent company stock information was used (OTC Form 904-W-1 thru 904-W-4);
11. Several years of historical data including plant additions and retirements, net carrier operating income, gross operating revenues, net plant investment, gross plant investment, customers, non-cash expense and cash flow (OTC Form 904W-5 thru 904-W-6);
12. Investment data as per books of account including common stock, preferred stock, long term debt and deferred income taxes. The rates reported must be embedded (actual) interest on debt instruments (OTC Form 904-W-7);
13. Company rendered Oklahoma fair cash value (**mandatory**). Allocation factor of original cost Oklahoma and system, and the exempt Oklahoma utility property cost as shown on OTC Form 903-W (OTC Form 904-W-7);
14. Stockholders report for the year preceding January 1;
15. Balance sheet as of January 1, (audited if possible);
16. Income statement for the year preceding January 1, (audited if possible);
17. Form 10K (if applicable).

II. **Data Sources**

- A. OTC - Oklahoma Tax Commission report for Ad Valorem Division purposes;
- B. Annual report to stockholders;
- C. Auditors opinion and financial statements;
- D. SEC – Securities and Exchange Commission Form 10-K;
- E. Annual filing to Oklahoma Corporation Commission.

III. Data Needed for Valuation

A. Cost Approach – Original Cost less Depreciation

1. Original cost of utility plant and equipment (including land, buildings, tanks, wells, pumps, water lines, meters, hydrants, furniture and fixtures, automobiles, tools and other tangible physical property) recorded by account;
2. Accumulated depreciation recorded in accounts related to utility plant and equipment by account;
3. Amount recorded in the materials and supplies account;
4. Amount of original cost and accumulated depreciation of any miscellaneous physical property;
5. Balance sheets for the last two years.

B. Income Approach

1. Income statements for the last two years showing income and expense by accounts;
2. Statement showing after tax net utility operating income for each of the last five years;
3. Gross operating income for the past five years;
4. Net plant investment for the past five years;
5. Gross plant investment for the past five years;
6. Number of customers for the past five years;
7. Cash flow (net operating income plus non-cash expenses) for the past five years.

C. Stock and Debt Approach

1. Market value of long term obligations as of January 1;
2. List of long term obligations showing date of instrument, maturity date, interest rate, and amount outstanding as of January 1;
3. Amount of current debt outstanding as of January 1;
4. Market value of preferred stock outstanding as of January 1;
5. List of preferred stock issues showing stated rate, par value and shares outstanding as of January 1;
6. Market value of common stock outstanding as of January 1;

7. Number of shares of common stock outstanding as of January 1. If the reporting company does not have publicly traded stock, then that of the parent company whose stock is publicly traded shall be used;
8. List of high and low prices for the common stock for each of the twelve months proceeding January 1. If the reporting company does not have publicly traded stock, then that of the parent company whose stock is publicly traded shall be used;
9. If the reporting company does not have publicly traded stock, then the original cost, net investment, gross revenue and net income of the parent company whose stock is publicly traded in addition to that of the reporting company are needed;
10. Amounts payable to affiliated companies as of January 1.

IV. Reporting Tax Exempt Items

A. Oklahoma licensed vehicles, original cost and accumulated depreciation

1. Total of requested exemptions;
2. Applicable accumulated provisions for depreciation;
3. Tag number for all vehicles and indication of type (i.e. sedan, ½ ton pickup, etc.).

B. Producing Oil Wells, original cost and accumulated depreciation.

C. Producing Gas Wells, original cost and accumulated depreciation.

D. Other, original cost and accumulated depreciation and reason for exemption.

V. Valuation Formula

A. Cost Approach – Original cost less depreciation

1. Depreciated cost of all company plant, including leased property (except CWIP);
2. Construction work in progress deferred at computed capitalization rate;
3. Materials and supplies;
4. Furniture, fixtures, tools and other tangible physical property;
5. Other taxable property.

FORMULA: (#1 + #2 + #3 + #4 + #5) = Indicator of system value using Cost Approach based on original cost less depreciation.

B. Income Approach

1. Net utility operating income and/or cash flow based on one of the following:
 - Standard net operating income to gross revenue ratio based on actual gross revenue or typical gross revenue per customer;
 - Five year simple average;
 - Five year weighted average;
 - Most recent year;
 - Trended analysis using linear regression, exponential curve, logarithmic curve and/or power curve analysis.
2. The typical capital structure of comparable companies shall be used in the band of investment to develop the overall capitalization rate.

Earnings price ratios, capital asset pricing models, discounted cash flow models (dividend growth models) and risk premium models shall all be considered when determining the equity rate component for the band of investment. The capitalization rate used should match the level of income being capitalized.

FORMULA: $(\#1 / \#2) =$ Indicator of system value using the Income Approach.

C. Stock and Debt Approach

- 1 Market value of equity;
- 2 Market value of debt;
- 3 Percentage of taxable property to total property.

FORMULA: $[(\#1 + \#2) \times \#3] =$ Indicator of system value using the Stock and Debt Approach.

VI. Correlation

At this point the value indicators must be correlated into a final system value (correlated unit value) based on the appraiser's best judgment. Generally two or more approaches to value are utilized for this final correlation. However, there may be circumstances whereby only one approach to value is utilized.

VII. Allocation

Original cost – Oklahoma divided by total equals percent in Oklahoma

VIII. Exemptions

- A. Original cost of Oklahoma property;
- B. Original cost of exempt property in Oklahoma.

FORMULA: $[(A - B) / A] = \text{Oklahoma taxable property ratio}$

IX. Oklahoma Taxable Unit Value

FORMULA: $[(\text{Correlated Unit Value} \times \text{Oklahoma Allocation Factor}) \times \text{Oklahoma Taxable Property Ratio}] = \text{Oklahoma Taxable Unit Value}$