How Utilities of all Sizes can Lower Property Taxes by Leveraging GIS Data

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Executive Summary

Regardless if you are a multi-million dollar utility or a multi-state co-op, you are probably paying too much in property tax.

Most electric, gas, telecom and pipeline companies overpay property tax across jurisdictions. Why? These companies have inadequate knowledge of the precise location of ALL their fixed assets, especially high volume assets like power poles. They do not know the city or county of every asset they own -- making it impossible to know when every asset was created or retired. Naturally, most companies prioritize their time on the bigger, more valuable assets and make broad assumptions for the remaining, high volume assets, some of which may no longer exist. This manually-intensive practice often results in companies overestimating their numbers to ensure a safe margin for error and avoid the headache of an audit. This is not the most effective means of managing a business, but it's been practiced for years.

As geographic information systems (GIS) have expanded across the organization, and with the ability to automate many manual accounting processes, best-in-class companies are taking a more strategic approach. They use advanced GIS solutions coupled with data-rich property tax solutions to automate and simplify the property tax collection process and improve compliance, while saving the company time and money.

 This white paper will address the state of the industry today and how geographic information can be paired with property tax solutions to improve collaboration and communication. Readers will learn:

- How to gather and document information about your assets
- How to effectively retire assets to minimize taxes
- How to effectively estimate property taxes

By leveraging advanced GIS and property tax solutions companies are benefiting from increased accuracy that results in tax savings, reduced compliance risk, and internal productivity gains.

Property Tax Compliance: Precise Location is the Key

Are you paying too much in property tax because you don't know precisely where all your assets are located? It's easy to understand why companies make broad assumptions about high volume assets like poles and streetlights. Utilities have barely begun to harness the power of GIS for data management. Consider these examples of the reality of location information for fixed assets in utilities today.

- A utility in the Southeast had so many inconsistencies among their various asset records that they created a special project to identify and correct them. The project lasted two years and cost millions. [need to verify if millions or thousands]

Commented [BM1]: Millions is correct

- A Western electric company justified the cost of their Geographic Information System (GIS) based on a simple reality -- they needed to know how many poles they owned and precisely where each pole was located. With improved asset location information they were better prepared to minimize property taxes.
- A northeastern city accused the local electric company of overcharging the city for street lighting. Unfortunately the utility was in error -- due to the inconsistencies in their street light systems – a problem that is easily resolved with accurate location information.
- Add pipeline or telecom example? Let's ask Bill A large gas pipeline company in the Midwestern US discovered that location of their major high pressure pipelines mapped in their old mapping system were off by several hundred feet in some locations. They discovered this during their government mandated integrity management programs. They completely revamped their mapping system to a new Esri based GIS and adjusted all pipelines to their correct locations at a substantial cost.

**Commented [BM2]:** I don't have a good telecommunications example since they are so highly competitive, they don't tend to share information.

Each of these companies did not have an accurate inventory of their assets. Nor did not have an accurate location for these assets. They did not know the number and location of assets that are visible or worse yet, those assets that are hidden in vaults or manholes and underground. Sound familiar?

Best-in-class companies have processes in place to account for every asset they install, move or replace. They have integrated their work management practices. For them, the problem is not the new assets. The problem is with assets that were installed, moved and replaced years ago, before integrated work management systems or even computers existed. Since some fixed assets are over a

half a century old, the degree of "a good idea" of asset counts and locations depends on how long good practices have been in place.

So why is it that important for utilities to know exactly how many assets they have and where they are? Location matters. It matters a lot. The more companies move from "having a good idea" to "having precise information" means the difference between being compliant to the law or not. It also means overpaying or underpaying taxes. Both situations are not good. It could mean that the utility based its rates on incorrect information. That could mean rebates to consumers. Quite frankly, the stakes are high.

[Insert map of Texas showing lots of jurisdictions]

Locating Assets: When a Good Idea Isn't Good Enough

With regard to asset location, let's get a solid understanding of how these inconsistencies developed. It boils down to two primary issues: silos of processes and institutional knowledge.

As electric, gas, telecom and pipeline companies have expanded over the years, they needed to organize into groups, teams, departments and divisions. From engineers to accountants to customer service, the more people specialized, the less the specialist from one group communicated with the specialist in another group. Rarely would the troubleshooters in a line truck talk with a tax accountant. As utilities began leveraging information systems, they automated these silo processes, so the automated systems typically did not talk to other systems. This created information and workflow silos.

The silos get even worse and even more damaging from an accounting viewpoint, during times of crisis. It's not surprising that when a line crew replaces a pole knocked down at 2:00am, they may fail to record the details of the work. This issue intensifies during a major blizzard, hurricane or earthquake, when the crews are stretched thin and stressed. The lowest priority in the midst of a crisis is the accounting.

The other issue is previous reliance on institutional knowledge. Years ago, utility workers sort of knew where things were. They relied partially on documentation and on their accumulated knowledge of the system. But many of those workers have retired. In the past, engineers "had a good idea" of the state of the assets, tax accountants "had a good idea" of the state of the tax liability. As companies scale and employees retire, having a "good idea" is not good enough -- companies are looking for a more reliable alternative. That's why this accumulated knowledge needs to be systematically stored to reduce compliance risk.

So how do companies start moving in the right direction? Industry leaders are overcoming silos and compensating for institutional knowledge gaps by creating a framework for collaboration. They are making it easy for all employees to create and share data. They are building a culture and technology for collaboration, similar to the collaboration employees practice via popular social media platforms such as Facebook and LinkedIn.

The second and more difficult step is to correct all the data inconsistencies. Technology can help here as well, but it can be more labor intensive and time consuming. It will take a commitment from management to recognize that raising the level of data accuracy (count and location of assets, along with condition, attribution and the relationship of the assets to each other) is in their best interest and will pay off.

GIS solutions coupled with data-rich property tax solutions can help. The good news for utilities is that geographic information systems have matured from standalone silo applications to collaboration platforms.

[Sidebar]

Benefits of Automating the Property Tax Cycle

- Decrease tax basis by identifying exempt portion of asset cost
- Lower tax basis by identifying all retirements accurately via direct integration plus abatements and exemptions
- Prevent billing errors like double bills and incorrect tax rates
- Mitigate compliance risk due to improved filing and payment processing
- Speed processing times due to streamlined workflow

- Reduce audit time and risk

Leveraging Collaborative GIS Solutions to Move in the Right Direction

Utilities have used GIS technology for years to map their assets. Early GIS systems simply automated the process of drafting maps by hand. Users wanted their digital maps to look exactly the same as the old ones. They also did not change the underlying processes that went into creating, publishing and distributing the maps. They carried over the same workflows. Although the data was digital, it was difficult to share outside the silo. Even with digital maps, tax accountants couldn't figure out what to do with the data. That meant in some cases, entering data from printouts or plots of one system and reentered the data into another system. This was a messy, time consuming and error prone process.

The notion of a GIS as a collaboration platform changes all that. No longer is GIS information simply replicating old printed maps. Instead, a GIS provides data management capability on a desktop, over the web and on all kinds of mobile devices.

GIS has three abilities: sharing, collaboration and communication. Once the utilities do the hard work of capturing the location and characteristics of their assets, they can share that information with other information systems, such as PowerPlan. This means that as engineers and line crews edit the GIS data, the platform automatically communicates those changes to the other IT systems. People in accounting and engineering then can collaborate to solve problems. This collaborative platform can help the operating group and the accounting department work together to fix the data inconsistencies.

Automating the Property Tax Cycle

Knowing the precise location for all assets is even more powerful when teamed with automation of the property tax cycle. Utilities can address property taxes across all states and jurisdictions with PowerPlan Property Tax. This powerful solution automates the entire property tax cycle from preparing returns and tracking assessments to paying bills and calculating accruals. The software is

designed to help minimize tax liability, mitigate risk and provide more timely and accurate tax reporting for hundreds of bills across multiple jurisdictions.

PowerPlan Property Tax provides the tracking, analysis, reconciliation, reporting, and filing of returns and other property tax information. Real and personal property functions are supported for centrally and locally assessed environments. The solution includes a complete bill management system and prepares and books accruals and related journal entries.

The system can standalone, integrate into PowerPlan's asset accounting system, or integrate into a company's legacy asset system. Various state and local property tax rules and classifications are supported and regulation changes can be easily incorporated. Streamlined processes create efficiencies, allowing personnel to focus on value added advisory work producing time and tax savings.

[Case study sidebar]

EQT Reduces Property Tax Basis

EQT is the largest natural gas supplier in the Appalachian Basin, serving over 270,000 customers. They use PowerPlan Property Tax to generate state and local filings, spread unitary assessments, pay bills, calculate accruals, and compute well valuations. Approximately 6500 bills are processed annually for over $20 million in tax payments.

Prior to working with PowerPlan, the company was rolling forward previously reported balances instead of using asset data. By leveraging PowerPlan Property Tax, accurate balances are being reported, resulting in a lower tax basis.

What's the Payoff?

Let's look at how using advanced GIS solutions from ESRI Esri coupled with PowerPlan's data-rich property tax solution can automate and simplify the property tax collection process, help achieve compliance and save the company time and money.

Easily Gather and Document Information about Your Assets

Specially configured to work together, the PowerPlan/~~ESRI~~ EsirI platform delivers an integrated solution that requires no special customization. The combined functionality makes it easy for field personnel to capture information as they see it. No longer are they required to remember to tell someone about an error on an old printed map. With GIS data on their smart phones, tablets or ruggedized laptops, field workers can capture the correct information on the spot. Now everyone in the company can have immediate access to the data.

In addition to providing visibility, the joint PowerPlan/~~ESRI~~ EsrII solution also performs analytics. Accountants and asset management, operators, engineers can develop simple tools that answer questions like "show me where the depreciated assets are located and look at where utilities can save money by better tax accounting." Engineers would never think of using plant accounting principles when upgrading a new pole line or a new underground feeder. The combined solution provides insight by analytics and visualization.

Effectively Retire Assets to Minimize Taxes

No utility should pay taxes on assets that have been retired. But it happens all the time. With improved, more precise location information and automated, collaborative workflows utilities can more effectively retire assets, in a more timely manner. And by eliminating retired assets from the books the tax basis will decrease accordingly.

Effectively Estimate Property Taxes

Change is constant, so PowerPlan's PropertyTax solution is designed to support current and future state and local property tax rules, classifications, and valuation techniques. The state and local requirements are completely table-driven, therefore the system is equipped to respond immediately to changes in regulations and interpretations without the need for rewriting the software. Additionally, the table-driven structure of the system means proposed law or interpretation changes can be simulated quickly, without the need for newly customized code.

Special requirements -- including allocation of mass property to the taxing jurisdiction level, reporting of property by particular accounts, exclusion of certain intangible and pollution control costs, mobile property, and the allocation of central assessments to the appropriate jurisdiction – are all easily handled to ensure estimation of property taxes.

[pull quote]

"It's great to have a sense of true locations across all our fixed assets. We've lowered our tax basis, but it's also made our team more efficient."

Name, Title, Company

Conclusion

Utility GIS has matured to provide a platform of simplicity and agility. Now that maps are designed to support accountants and can be embedded directly into accounting systems like PowerPlan, geographic information can be paired with property tax solutions to improve collaboration and communication – regardless of company size.

Forward thinking companies have realized that this more strategic approach to leveraging geographic information provides tremendous value while also reducing headaches. They are pairing advanced GIS with automated property tax solutions to gather more precise location information about their assets, and more effectively retire assets and estimate property taxes, while improving compliance. These companies are benefiting from minimized taxes and reduced compliance risk, ultimately saving both time and money. At PowerPlan we're ready to help your organization realize these benefits as well. Contact us today to learn more.

About PowerPlan

PowerPlan is an enterprise software company devoted to helping asset-centric businesses optimize their financial performance. PowerPlan combines purpose-built software for asset centric accounting, tax and budgeting/analytics with domain expertise to help executives generate cash, mitigate

compliance risk and enable a culture of cost management. The world's most demanding asset-intensive companies trust PowerPlan to manage more than $2.3 trillion in assets today. PowerPlan is a privately held company based in Atlanta, GA. For more information, call us at +1 770.859.0402, email us at info@pwrplan.com, or visit us at www.powerplan.com.