How to Better Manage Property Taxes by Leveraging GIS Data

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EXECUTIVE SUMMARY

Multi-million dollar utilities and multi-state co-ops alike pay too much in property tax, across jurisdictions.

Why? They have inadequate knowledge of the location of their fixed assets, especially high volume assets like power poles. Without knowing the city, county, or other taxing jurisdiction of each asset, it becomes impossible to provide an accurate total property value by jurisdiction, which can lead to double counting and higher property tax. Naturally, most companies prioritize calculations around the bigger, more valuable assets (e.g., sub-stations) and rely on broad assumptions for the lower-value, but higher-volume, assets (e.g., power poles), some of which may no longer exist. This manually-intensive practice often results in companies overestimating their high-volume asset numbers to ensure a safe error margin in case of an audit.

The best-in-class companies take a more strategic approach. Thanks to the expansion of geographic information systems (GIS) across organizations which provide the ability to automate many manual accounting processes, these companies can automate the tax-returns process. By coupling advanced GIS solutions with data-rich property tax solutions, they can improve compliance while saving 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 assets
- How to effectively retire assets to minimize taxes
- How to effectively estimate property taxes

PROPERTY TAX COMPLIANCE: PRECISE LOCATION IS THE KEY

Are you paying too much in property tax because you don't know where all your assets are? Because utilities have barely begun to harness the full power of GIS for data management, they have had to make broad assumptions about their high-volume assets. Consider these examples.

- A utility in the Southeast had so many inconsistencies among its various asset records that it created a special project to correct them. The project lasted two years and cost millions.
- A western electric company justified the cost of its GIS based on a simple reality: It needed to know how many poles it owned and where they were located. With improved asset locations, it was prepared to minimize property taxes.
- A large Midwestern gas-pipeline company discovered its major high-pressure pipelines were off – sometimes by as much as several hundred feet – in its old mapping system. The discovery resulted from government-mandated integrity-management programs. The company completely revamped its mapping system and, with a new Esri-based GIS, corrected all pipeline locations at a substantial cost.

Each of these companies needed an accurate assets inventory. Each needed to know the number and location of not only visible assets but also those hidden in vaults, in manholes, and underground. Sound familiar?

But best-in-class companies have processes in place. They account for every asset they install, move or replace. They have integrated their work management practices with a robust asset-accounting system that's specifically designed for asset-intensive industries. If they have any problem, it is with assets that were installed, moved and replaced before these systems existed.

Why is this asset count so important? Having precise asset information means the difference between being compliant to the law or not. It also avoids overpaying or underpaying taxes, both of which suggest the utility based its rates on incorrect information, which can result in consumer rebates. Stakes are high. Location matters – a lot. Having a good idea isn't good enough.

LOCATING ASSETS: WHEN A GOOD IDEA ISN'T GOOD ENOUGH

Let's get a solid understanding of how inconsistencies might have developed. The issue boils down to silos of processes and silos of institutional knowledge.

As electric, gas, telecom and pipeline companies have expanded over the years, they have organized internally into groups, teams, departments and divisions. From engineers to accountants to customer service representatives, the more people specialized, the less each group of specialists talked to each other. Rarely would the troubleshooters in a line truck talk with the tax accountants. As utilities leveraged information systems, they automated processes, and the automated systems typically did not talk to each other either. This created information and workflow silos.

As the silos worsened, it directly impacted accurate accounting records. When a line crew replaced a knocked-down pole at 2:00 am, it wasn't uncommon for them to forget to record workflow details. These recording lapses were especially prevalent during major events, such as blizzards or hurricanes, and the result was that asset records no longer accurately reflected the landscape.

The other issue stems from a reliance on institutional knowledge. Years ago, utility workers relied partially on documentation and partially on their accumulated knowledge of where assets were. Together, the engineers had a good idea of assets, and accountants had a good idea of the tax liability. But many of those workers retired, taking valuable institutional knowledge with them. This combined with companies scaling to larger levels means having a good idea is not good enough, for the long term. Asset knowledge must be systematically stored to reduce compliance risk.

So how do companies start moving in the right direction? The first step for industry leaders is to overcome silos and compensate for institutional knowledge-gaps by creating a framework for collaboration. They have to make it easy for all employees to create and share data. They must build a culture of collaboration, including new software and technology that facilitates the sharing of ideas and information across the organization.

The second and more difficult step is to correct all the data inconsistencies. Technology can help here, too, but this can be more labor intensive and time consuming. Raising the level of data accuracy (i.e., asset count, location, condition, attribution, and relationships) will take commitment from management.

GIS solutions coupled with an asset management system/property tax solutions can help.

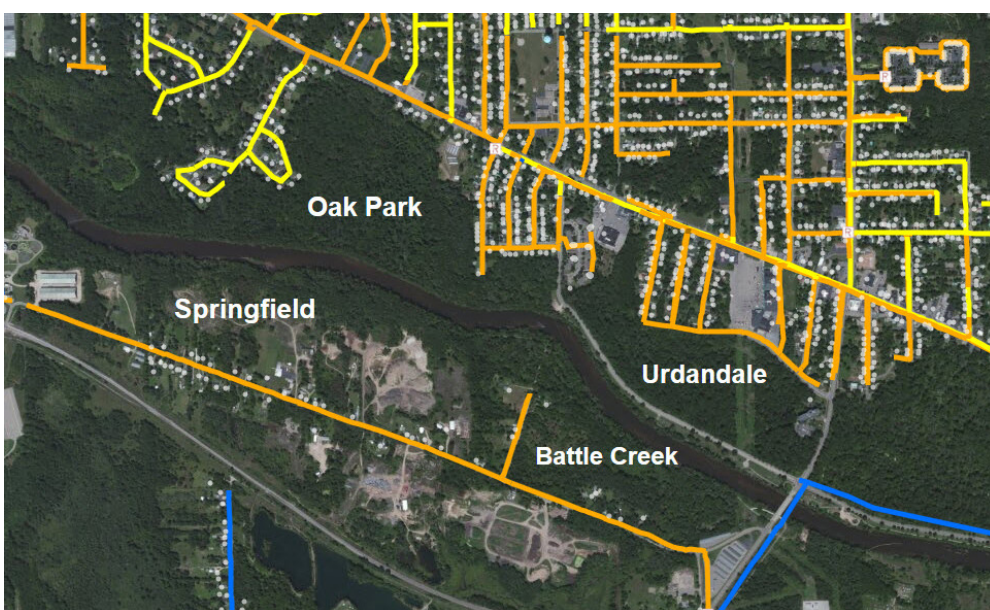## Benefits of Automating the Property Tax Cycle

- 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
- Reduce risk of audit due to unreported assets

LET YOUR SILOS COLLABORATE WITH GIS SOLUTIONS

Utilities have used GIS for years to map assets. Early GIS technology only automated the hand-drawn maps, which meant the underlying processes remained the same. When they moved to digital maps, they carried over the legacy workflows. The data was now digital, but it remained difficult to share outside the silo. Even with digital maps, tax accountants couldn't figure out what to do with the data. In some cases, they had to re-enter data from printouts into another system. This was messy, time consuming and error prone.

A GIS that acts as a collaboration platform changes all that. GIS is no longer limited to replicating old printed maps. Today it enables data management on a desktop, over the web and on all kinds of mobile devices. GIS has three abilities, in fact: sharing, communication, and collaboration.

Once utilities capture asset location and characteristics, they can share it with other information systems, such as PowerPlan. This means the platform automatically communicates changes from the field, such as line crews editing the GIS data, to the other IT systems and engineers. With the correct information, the accountants and engineers can collaborate to solve problems. This collaborative platform can help the operating group and the accounting department work together to fix the data inconsistencies. Once the data is set, they can automate certain property-tax considerations.

This graphic shows how the location of utility assets can cross jurisdictional boundaries, making it difficult for utilities to accurately manage the tax implications.

AUTOMATING THE PROPERTY TAX CYCLE

Accurate asset information is most 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.

Oil and Gas Company Reduces Property Tax Basis

A large oil and gas company with both midstream and upstream operations uses PowerPlan Property Tax to generate state and local filings, spread unitary assessments, pay bills, calculate accruals and compute well valuations. The company processes approximately 6,500 bills 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 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 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 solution also performs analytics. Accountants and asset management, operators, engineers can develop simple tools that answer questions such as, "Where are the fully depreciated assets?" and "Where can my utility can save money through 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.

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.

Effectively Retire Assets to Minimize Taxes

No utility should pay taxes on retired assets, but it happens all the time. With updated, precise location information and automated, collaborative workflows, utilities can more effectively retire assets. And by eliminating retired assets from the books, the tax basis decreases accordingly.

Assets are often replaced due to damage, rerouting and random failure. This means that retiring the asset from the appropriate vintage is every bit as important as retiring the correct quantity. Why? It isn't always the oldest asset being replaced – however, the oldest assets generally have the lowest cost. PowerPlan can apply methods to ensure assets are retired consistently, which leads lowers property taxes and eliminates the need to track vintage-level information in the GIS.

CONCLUSION

GIS has matured to provide utilities a platform of simplicity and agility. Now that maps are designed to support accountants and can be integrated 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 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
- More effectively retire assets
- Estimate property taxes
- Improve compliance

These companies benefit from minimized taxes and reduced compliance risk, 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 +1 678.223.2800 email us at info@pwrplan.com, or visit us at www.powerplan.com.

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