Investing in County Priorities:
Strategies for Effective Property Tax Administration

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It is the part of the good Shepherd to shear his flock, not slay it.

~ Tiberius Caesar
Brief History of Property Tax

• Taxation has existed in various forms since civilization began
• In the days of old the source of wealth was land and its proceeds
• Taxes were paid by a percentage of crops raised
Brief History of Property Tax

• The earliest known tax records date from approximately 6000 B.C., in the ancient city-state of Lagash in modern day Iraq

• Property taxes were used in Egypt, Babylon, Persia, and China and throughout the ancient world
Brief History of Property Tax

• Tax assessors were highly valued officials in ancient Greece
• Near the Acropolis, there is a monument to the honest tax assessor
WHY HAVE A PROPERTY TAX?

The power of taxing people and their property is essential to the very existence of government.

~ James Madison
WHY HAVE A PROPERTY TAX?

• The property tax is an important part of any well-balanced revenue system for a community

• Property taxes fund such things as schools, fire and police protection, streets, libraries, and other public benefits
WHY HAVE A PROPERTY TAX?

• The property tax is a more stable revenue source than sales taxes and income taxes because it does not fluctuate when communities have recessions or when individuals’ income fluctuates.
ROLE OF THE PROPERTY TAX

• Provides for balance and equity in the total tax system by taxing the one element of ability to pay overlooked by other state and local taxes
ROLE OF THE PROPERTY TAX

• Allocates the cost of government according to the ability to pay as measured by property wealth

• Reaches and includes broad sectors of the citizenry in sharing the costs of government
ROLE OF THE PROPERTY TAX

• Among the many types of taxes levied, the property tax is the only tax used in every state and the District of Columbia.

• The most important source of own-source and total revenue for local governments.
ADVANTAGES OF THE PROPERTY TAX

The wisdom of man never yet contrived a system of taxation that would operate with perfect equality.

~Andrew Jackson
ADVANTAGES OF THE PROPERTY TAX

• More stable and reliable than any other tax
• More open and visible
• Full magnitude of the tax is obvious
ADVANTAGES OF THE PROPERTY TAX

• This openness and visibility helps to focus attention on and thereby improve the overall accountability of government
ADVANTAGES OF THE PROPERTY TAX

• Because the property tax is generally levied and administered locally, it is uniquely suited to the needs and structure of local government and promotes local autonomy
ADVANTAGES OF THE PROPERTY TAX

• Assessment appeals are an important component in the assessment process
• An appeal system exists to afford property owners an opportunity to appeal their assessments
• Key to any assessment appeal system is an open and transparent process that relies on a clearly written set of procedures and provides due process.
The appeals system should consist of:

- Informal appeal
- One or more levels of formal appeal
- Court of law
• Property taxes can be secured by the property and therefore are difficult to evade.

• For this reason, property taxes provide a more predictable, consistent amount of revenue.
No government can exist without taxation. This money must necessarily be levied on the people; and the grand art consists of levying so as not to oppress.

~Frederick the Great
DISADVANTAGES OF THE PROPERTY TAX

- Usually rated by the public as the most unpopular of all state and local taxes
- Falls on unrealized capital gains and may be unrelated to cash flow
DISADVANTAGES OF THE PROPERTY TAX

- Difficult for the retired and others who may be property rich but income poor
- Large lump-sum payments make the magnitude of the tax more apparent and unpopular
Property assessment is a resource-intensive process compared to the voluntary reporting mechanisms of the income and sales taxes.
DISADVANTAGES OF THE PROPERTY TAX

• In property taxation, administrative costs are high
• In income and sales taxation, compliance costs are high
AD VALOREM

• Ad valorem = ‘based on value’
• The amount of tax paid is dependent upon the value of the property owned
• Ability to pay is measured by your property wealth
ABILITY TO PAY v. WEALTH

• Historically, ownership of property has been highly correlated with wealth

• In modern times, income is considered the closest measure of ability to pay
ABILITY TO PAY v. WEALTH

• The link between property and wealth has become less obvious

• However, it is not unrealistic to suggest property is still a form of wealth
ABILITY TO PAY v. WEALTH

• Only the property tax enables this wealth component to be used to pay for the costs of government.

• Without property tax, some sectors of society with wealth would be exempt from paying for the costs of government.
Taxes are what we pay for a civilized society.

~Oliver Wendell Holmes
THE PROPERTY TAX

A. Each taxing jurisdiction develops a budget

B. The assessor provides the appraised value for each taxing jurisdiction

C. Appraised value times assessment ratio equals taxable value

D. Budget divided by the taxable value equals the tax rate
Determining Tax Rates and Bills

\[
\text{Debt Service (\$)} + \text{Education operating expenses (\$)} + \text{Local government agency operating expenses (\$)} - \text{Revenue from sources other than property tax (\$)} = \text{Budgeted revenue to be raised by property tax (\$)}
\]
Determining Tax Rates and Bills

Debt Service ($) + Education operating expenses ($) + Local government agency operating expenses ($) - Revenue from sources other than property tax ($) = Budgeted revenue to be raised by property tax ($)
Determining Tax Rates and Bills

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\text{Debt Service (\$)} + \text{Education operating expenses (\$)} + \text{Local government agency operating expenses (\$)} - \text{Revenue from sources other than property tax (\$)} = \text{Budgeted revenue to be raised by property tax (\$)}
\]

\[
\frac{\text{Budgeted revenue (\$)}}{\text{Total taxable value of all property (\$)}} = \text{Tax rate (\$1/\$1,000)}
\]

\[
\text{Tax rate (\$1/\$1,000)} \times \text{Taxable value of individual property (\$)} = \text{Tax bill (\$)}
\]
RESPONSIBILITY OF ASSESSOR

The assessor is the government official responsible for determining the value of the property for *ad valorem* (according to value) tax purposes.
THE ASSESSMENT FUNCTION

• Assessors have a responsibility to:
  – The government (in which we have a role)
  – Constituents/taxpayers we represent in our capacity
THE ASSESSMENT FUNCTION

• In our responsibility to the government:
  – We are obligated by law to produce values that are utilized by local governments to develop the property tax paid by the local taxpayers
THE ASSESSMENT FUNCTION

• In our responsibility to our constituents/taxpayers:
  – Obligated to produce values that are accurate and equitable/fair
Duties of the Assessor

- To discover the property
- To list the property
- To value all taxable property
What tools are available?

? CAMA GIS
What does CAMA mean?

Computer Assisted Mass Appraisal

A system for assessing real and personal property with the assistance of a computer, usually only certain types of real property, that incorporates computer-supported statistical analyses to assist the appraiser in estimating value.
What does GIS mean?

**Geographic Information System**

A geographic information system (GIS) integrates hardware, software, and data for capturing, managing, analyzing, and displaying all forms of geographically referenced information.
Discover
Locate the property
Identify the property type
**PROPERTY ADDRESS INFORMATION**
492 Garfield St
Bonner Springs, KS 66012

**PARCEL INFORMATION**
- Tax District: 5
- Map: D30
- Subdivision: Rehms Park 2nd Add
- Description: B2 L4
- Census Tract: 44900
- Census Block: 2009
- School District: 204
- Election City/Ward: 2-03-01
- Election UG/WAR: 7-2

**VALUATION INFORMATION**
- Year: 2009
- Total Appraised: $130,100
- Assessed: $149,620
- Year: 2008
- Total Appraised: $135,520
- Assessed: $155,840

**CAMA INFORMATION**
- Appraisal Year: 2009
- Residential Parcel
- Effective Front: 79
- Effective Depth: 115
- Acres: 0.2
- Story Height: 1
- Year Built: 1965
- Ground Floor Area: 1185

**GIS**

**DISCOVER THE PROPERTY**

**CAMA**

**GIS**
Discover the Property

CAMA

GIS

Rehms Park Subdivision: Residential
List
Create a list of property characteristics
Determine the extent of taxability
LIST THE PROPERTY

CAMA

GIS

One Story Ranch Style Homes
1,000 – 1,500 Square Feet
LIST THE PROPERTY
Parcel ID: 105-049-30-0-40-01-022.00-0

Quick Ref: R28646

Tax Year: 2015

Run Date: 3/1/2016 10:56:50 AM

OWNER NAME AND MAILING ADDRESS
CLARK, LARRY J & MARY K

492 N GARFIELD ST
BONNER SPRINGS, KS 66012-1546

PROPERTY SITUS ADDRESS
00492 GARFIELD ST
Bonner Springs, KS 66012

LAND BASED CLASSIFICATION SYSTEM
Function: 1101 Single family res
Sfr
Activity: 1100 Household activities
Ownership: 1100 Private fee simple
Site: 6000 Developed site - with building

GENERAL PROPERTY INFORMATION
Prop Class: R Residential - R
Living Units: 1
Zoning: BR1
Neighborhood: 600 600
Economic Adj Factor: 187500 61601
Tax Unit Group: 110

INSTRUCTION HISTORY
Date Time Code Reason Appraiser Contact Code
10/08/2013 8:00 AM 7 IOR JLB
07/30/2012 15 DTRw tac
05/22/2007 8:00 AM 7 PREVAPPR

SALES INFORMATION

Image Date: 12/04/2013

PROPERTY FACTORS
Topography: Above Street - 2, Rolling - 4
Utilities: All Public - 1
Access: Paved Road - 1
Fronting: Residential Street - 4
Location: Neighborhood or Spot - 6
Parking Type: On and Off Street - 3
Parking Quantity: Adequate - 2
Parking Proximity: On Site - 3
Parking Covered: Parking Uncovered:

2015 APRAISED VALUE

<table>
<thead>
<tr>
<th>Cts</th>
<th>Land</th>
<th>Building</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>23,330</td>
<td>105,970</td>
<td>129,300</td>
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</table>

2014 APRAISED VALUE

<table>
<thead>
<tr>
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<th>Land</th>
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</table>

TRACT DESCRIPTION
REHMS PARK 2ND ADD, S30, T11, R23, ACRES 0.20000, E2 L4

MARKET LAND INFORMATION

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<tr>
<th>Method</th>
<th>Type</th>
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<th>Depth</th>
<th>D-Fact</th>
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<th>Fact1</th>
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<th>Fact2</th>
<th>OVRD</th>
<th>Rsn</th>
<th>Cts</th>
<th>Model</th>
<th>Base Size</th>
<th>Base Val</th>
<th>Inc Val</th>
<th>Dec Val</th>
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<td>600</td>
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<td>2.30</td>
<td>1.00</td>
<td>1.00</td>
<td>23,330</td>
</tr>
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</table>
Requires Construction Knowledge
LIST THE PROPERTY

CAMA

GIS

Exempt Church Property
VALUES ALL TAXABLE PROPERTY

Value

Calculate the market value of all property

Compute the taxable value
Calculate the market value of all property using three approaches:

- Cost
- Comparable Sales
- Income

Compute the taxable value.
Comparable Sales Approach

• The assessor compares the subject property to others that have sold recently

• Size, quality, condition, location, and time of sale are important factors to consider

• The assessor must analyze many sales to arrive at a fair valuation for your property
Comparable Sales Approach

Step 1: Select Comparable Sales
Step 2: Adjust Comparable Sales

A direct dissimilarity model may be used to adjust the sale to the subject.
Comparable Sales Method

Step 1: Select Comparable Sales   Step 2: Adjust Comparable Sales

Step 3: Reconcile the Adjusted Sale Prices to a Value Estimate
The Cost Approach

• The assessor determines how much money it would take, at current material and labor costs, to replace your property with a similar one

• If your property is not new, the assessor depreciates the cost of constructing a new building to estimate the value of a building with your building’s age
The Cost Approach

Calculate replacement or reproduction cost

Subtract any loss in value

Add a land value

= Cost Estimate
The Income Approach

- The assessor estimates how much income your property would produce if it were rented.
- The assessor compares this income with how much income most people would expect to earn on other types of investments to estimate the value of your property.
The Income Approach

Determine the net operating income of the subject from that of comparable properties.
The Income Approach

Capitalize net income into a value estimate.

$$\text{Net Income} \div \% = \text{Value Estimate}$$
Duties of the Assessor

• The assessor does not determine the total amount of taxes collected in the county, the tax rate, or individual taxes.

• The assessor’s primary responsibility is to find the fair market value of all taxable property, so that each property owner pays their fair share of taxes.
Mass Appraisal - The valuation of a universe of properties as of a specific date using common data, standardized procedures, and statistical testing
Valuation Models

Purpose of models

• Replicate how a process works (ie, the local real estate market)
• Predict outcomes or values (ie, probable sales prices)
Valuation Models

Role in mass appraisal

• Automate valuation techniques
• Increase accuracy, consistency, and efficiency
WHY DO ASSESSED VALUES AND MARKET VALUES CHANGE?

• Market values change because the property has changed or because market conditions have changed.

• In estimating the value of your property, the assessor reflects the conditions that are occurring in the marketplace.
The process of reappraising all the real property in the county to the current market value level

Real estate market is dynamic

This change can vary greatly within a county
REVALUATION

• In order to keep up with this change, revaluations are necessary to maintain accurate and uniform property values throughout the county

• Revaluation improves appraisal performance, which in turn improves tax equity
HIGH-QUALITY, COST EFFECTIVE PROPERTY TAX SYSTEM

• Valuation Component
• Taxation Component
VALUATION SYSTEMS

• Maximize equity among property taxpayers
• Visibility and openness
• Minimize administrative complexity and confusion
To maximize fairness and understandability in a property tax system, assessments should be based on current market value of the property.
• Current market value implies annual assessment of all property
• Necessary to observe and evaluate, but not always change, the assessment of each property each year
A high-quality valuation system requires highly skilled and trained professional staff.
TAXATION SYSTEMS

• There may be imperfections using property wealth as a measure of ability to pay

• Remedies to alleviate the real and perceived public concern with the property tax
TAXATION SYSTEMS

• Exemptions
• Classification
• Abatements
• Tax Increment Financing (TIF)
TAXATION SYSTEMS

• Property Tax Deferrals
• Circuit Breakers
• Tax Credits
Only little people pay taxes.

~Leona Helmsley
EXEMPTIONS

• Exemptions – subsidies to certain owners or for certain uses of property to encourage publicly desired objectives

• Key principle – all property is taxable unless it is specifically exempt
EXEMPTIONS

• Lessen the taxes levied on classes or types of property
• Shifts the tax burden to non-exempt properties
• Decreases the tax base available for local units of government and may increase tax rates
EXEMPTIONS

- Exemptions are to be narrowly construed
- Generally take the form of a partial or full exemption
EXEMPTIONS

• Partial exemptions – a percentage or fixed dollar amount is removed from the otherwise taxable value of property

• Example: homestead
EXEMPTIONS

• Full exemption – taxable value equals zero

• Example: religious, educational institutions, charitable or benevolent societies
CLASSIFICATION

• Similar to partial exemption in that certain types of property are given favored assessment treatment
• Application is generally not required
CLASSIFICATION

• Usually in the form of a favored percentage of assessed value or lower tax rate

• Based on political, not economic, conditions

• Leads to confusion about the property tax
ABATEMENTS

• Abatements – typically forgive all or a portion of property taxes for a specified period of time
TAX INCREMENT FINANCING (TIF)

• TIF – permits a portion of the property taxes that would be generated on new development to be used by the development for expenses associated with infrastructure and improvement construction
• May also involve bonds that will be paid off by revenue diverted in this manner
ABATEMENTS AND TIF

• Used to attract businesses to economically depressed areas
• Abatements may also be used to promote residential use or to grant residential property tax relief
• Lessen the start-up costs of new, property-intensive businesses
• Both are preferred over classification schemes and limits on assessment increases
PROPERTY TAX DEFERRALS

• Used to relieve the tax burden on lower-income households

• Deferrals delay but do no excuse taxes which accrue as an increasing lien until the property is sold or the estate settled
CIRCUIT BREAKERS

• State-funded credits or replacement funding for local government

• Unlike other exemptions, funds are not lost to local governments and taxes are not shifted to other classes of property
CIRCUIT BREAKERS

• Usually restricted to low-income elderly homeowners and renters
• Provides relief to homeowners with fixed-incomes
• Desirable because they target relief to an identifiable group of disadvantaged taxpayers
• Typically allowed in the form of reduced income tax liability resulting from a property-tax-related expense
• Our mission is to promote excellence in property appraisal, assessment administration, and property tax policy
• Our commitments:
  – Provide professional development
  – Provide educational products
  – Provide research
  – Provide technical assistance
• An IAAO professional designation is a symbol of knowledge, experience and competence recognized around the globe.

• Designees are required to fulfill continuing education requirements in order to maintain their designation.
• We have over 50 courses, workshops, forums, and self-study courses that are offered throughout the world that teach property appraisal and assessment administration
Our research library includes a collection of over 20,000 books, articles, government documents, reports, and conference proceedings as well as various directories and subject guides on appraisal and assessment.
For more than 75 years, IAAO has provided objective, insightful advice to property assessment and taxation jurisdictions around the world.

We offer specialized consulting and technical advice on a broad range of assessment issues.
ONLINE RESOURCES – IAAO.ORG

• Research library
• Publications
• Professional Standards of Practice
• Surveys
• Public Resources
• Code of Ethics - IAAO members should adhere to the highest ethical standards

• Public trust in our performance is the foundation of our credibility
IN CLOSING

• The property tax is the mainstay of independent local government revenue

• The largest single local tax and supplies nearly half of all general revenue from local sources
IN CLOSING

• A good property tax is stable, efficient, and fair
• A highly visible tax will always attract more attention than a hidden levy
• Visibility carries with it accountability
IN CLOSING

• The valuation process is central to the improvement of the property tax and a more equitable distribution of its burden
IN CLOSING

• The visibility and transparency of the property tax are important civic benefits, but they also ensure that this tax will always be the subject of vigorous debate
The art of taxation consists in so plucking the goose as to get the most feathers with the least hissing.

~ Jean Baptiste Colbert