Oklahoma Ad Valorem FORUM

Volume XIII, Issue VIII • August 2004

Director's Notes:

Tulsa Conference 2004, the 60th Anniversary, is in the history books now. We had excellent attendance, lots of good instructors, hard working students, good new technology demos, and some good stories from the County Assessors' visit to the really beautiful new Aquarium at Jenks. The Jenks aquatic complex is fast becoming one of the "must see" sites in Oklahoma. We were fortunate the aquarium had no shark escapes or other disasters during our visit. The Taste of Tulsa event that was going at same time was also a plus. The County Assessors Association officers have come up with some really good social events over the years and this was one of the best, along with famous bowling tournament.

We were really pleased that Lt. Governor Mary Fallin, State Treasurer Robert Butkin, and Jeff McMahan, State Auditor and Inspector were able to attend the opening session. William Mack probably won't soon forget the opening ceremony when he got his 25th anniversary state service certificate subject to a humorous review of his "time" sheets.

I was also pleased that the State Board of Equalization (SBOE) members got to see the latest "graduating class" of initial and advanced accreditation students, including a "graduate" from Stephens County who just happened to have his own cap and gown! Accreditation is not a minor accomplishment. It takes a lot of work and dedication to complete and it becomes more complicated every year as the ad valorem system changes and grows.

As we say every year the success of the educational conference is the result of teamwork. Just like Oklahoma football, the conference rests on the work of a team. We'd like to thank the "team" members: the officers of the County Assessors Association, State Auditor and Inspector (SA&I), Oklahoma State University, Jewette Farley and Steven Sutterfield and all the speakers and instructors and of course all the county assessors and deputies who attended classes all week. We again appreciated the presentations by Garfield and Oklahoma Counties as well as the assistance in the mapping classes.

We were also happy for the fifth year in a row that the CODA Board held their monthly meeting at the conference. As I've said before, it's a great opportunity for the other county officers to see the extent and quality of the training that the county assessors have to go through. The county assessor still has one of the most complicated and technical jobs in county government.

But most of all thanks to all the county assessors and deputies who worked so hard throughout the week, juggling back-to-school plans, and traveling to Tulsa. We appreciate the effort, and I know all of county government does too.

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A Look Ahead...

- **September 6: Labor Day**
- **September 21-24: Unit II, Real Property Appraisal, Norman**

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Continued from page 1 "Director's Notes"...

Now that the conference is over, the Ad Valorem Division anticipates a busy fall. We'll also be watching with interest the two State Questions affecting ad valorem and working with county assessors if those measures pass. We'll also be completing more software updates, training, and the Equalization Study as well as preparing for the County Assessors' Association Annual Convention.

Have a good month getting settled into the fall and catching up after the conference. On behalf of the Ad Valorem Division thank you for hard work during the conference. We appreciate all that the county assessors and deputies do for taxpayers across the state. It's a tough job, but it's never been more important, as Tom Cusack says, to be "the guardian of fairness."

P.S. "According to the sign at the Jenks Aquarium, the average fish has a short term memory of three seconds. Human beings have a much longer short term memory except on Monday mornings."
Quote from Anwar Caddo, famous Ad Valorem Philosopher.

The Tulsa School

Another Tulsa school has come and gone. We had a nice mixture of state, federal, and commercial presenters and instructors. I would like to take this time to thank them because they helped to make the mapping sessions such a success this year.

We had Shellie Willoughby of the Oklahoma Conservation Commission give us an update on the GIS Council focusing on the legislative changes to the Council. Mary Banken of Geo Information Systems of OU gave us a demonstration of the improved functionality of the GIS Council's Data Warehouse interactive map viewer.

Dr. Jim Ford of NRCS explained to us the digital soil maps that his agency is making available to the public, and Ray Fox of USGS explained to us how we can exchange mapping data with the fed's. Bob Springer of SCI at the request of the new State Geographer, Steve Stadler, illustrated the importance of GIS, and Julie Parker of the Moore-Norman Technology Center explained what formal training opportunities are available.

David Lowther of SCI explained some of the processes of doing a countywide E-911 system, and Travis Schindler of ESRI showed us some ways to have an Internet mapping presence.

As for actual training, we want to thank Heath Wallis of SCI for spending a full day to help us with ArcGIS (ArcView) training and Dr. Paul Bendt for the half day of MIMS training.

I know that there is still room for improvement. Because of scheduling conflicts, we were not able to borrow the laptops from ESRI this year. We hope to have some hands-on training next year. If you have any suggestions for next year, please let me know!

Remember: *You are never "done" with mapping… The best you can hope for is to be current!*

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Present Status of Property Tax in U.S.

Continuation of Excerpts from an Article by Jeff Spelman, CAE and Mary Spelman, PH.D. Entitled "We Come to Faintly Praise the Property Tax, Not to Bury it: The Importance of the Property Tax in the United States," appearing in the Fall, 2003 IAAO Assessment Journal.

Property Tax Limitations

The debate over the benefit tax issue is also part of another major challenge to the continued survival of the United States property tax system: The imposition of tax limitations. Historically, property tax limits are not a new issue. They were first imposed after the American Civil War in several southern states, with a number of additional limitations enacted in the wake of the Great Depression in the 1930's, climaxing with the tax limitations begun with the famous Proposition 13 in California.

O'Sullivan (2001), a professor at Oregon State University, argues that tax limits have decreased property taxes, but they have also caused local governments to shift other resources to offset the effects of the limits, and they have reduced the amount of local control by weakening the link between local tax and spending decisions.

O'Sullivan suggests that there is some evidence that "many supporters of property tax limits expected local governments to provide the same level of service with less money" (p. 196). He cites a few surveys that suggest taxpayer expectations of a "free lunch."

Gary Cornia (2003) puts it clearly. "Supporters of Prop. 13 and its derivatives want lower property taxes and less government (at least for others), but it is unlikely they also want less government for themselves. David Sears and Jack Citrin (1982) have labeled this behavior the 'something for nothing' syndrome" (p.1).

Do voters come to regret their decision to limit taxes? There is a regret theory of tax limits; once the consequences of the tax limit are revealed, citizens experiencing the largest impact voted to override the limit. But most limitations have remained in place.

It appears that, in many cases, local governments have worked within the context of the limitation, resorting to other methods such as special districts to address taxpayers' need for services. The 'something for nothing' syndrome has become one more burden for the property tax to overcome, and it appears, with tacit support from local taxpayers, that this has occurred to some degree.

Public Service Update With Mike Isbell

And the protesting companies for 2004 are:

- Atlantic Coast Airlines (A025)
- Chesapeake Energy Marketing, Inc. (G067)
- Emerald Pipeline Corporation (F240)
- Shamrock Pipeline Corporation (F430)
- Skelly Belvieu Pipeline Company (F443)
- Skywest Airlines, Inc. (A117)
- Southwest PCS (T452)
- Southwestern Bell Telephone, LP (T460)
- Transpetco Pipeline Company (G671)
- Transwestern Pipeline Company (G680)
- Valero Logistics Operations, LP (F219)

Looks familiar. As is always the case, the time frame regarding the resolution of these protests is unavailable, as is the matter of any impact that may result. Anything now would be sheer speculation and inappropriate. Know that we are working hard to support our numbers and to facilitate an acceptable resolution for these matters.

Public service values for 2004 are in the counties now and this office has received many inquiries in their regard. Please know that if we haven't responded to your query, we are still in search of a complete answer. Corrected certificates may result from these inquiries and will be issued when all this type activity is completed. This will minimize any confusion that may occur.

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National Valuation Trends With Billboards

Excerpts from an Article by Cris K. O'Neall and Bradley R. Marsh Entitled "Trends in the Property Tax Valuation of Commercial Outdoor Advertising Structures," appearing in the most recent IAAO Journal of Property Tax Assessment and Administration.

Outdoor Advertising Structures, or "Billboards"

Recently, state taxing agencies and local assessors have taken definite positions on how to value outdoor advertising structures and a national trend has emerged. In the administrative arena, fundamental decisions have been made on nearly all the major issues.

This article focuses on the assessment of outdoor advertising in several states with large billboard populations. It also discusses the outdoor advertising industry, summarizes the major historical areas of contention, and analyzes the ad valorem assessment approaches now employed in leading states.

The Outdoor Advertising Industry

Although there is no definitive count, experts estimate that there are approximately 390,000 outdoor advertising structures nationwide. Billboards are found in every state except Alaska, Hawaii, Maine and Vermont.

Most outdoor advertising structures are supported by wood, steel I-beams or a steel monopole. They are also mounted on the sides or tops of buildings and in other locations, and they are often lighted. Billboards are found in a variety of locations and are generally built to standard dimensions using wood or steel.

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Perhaps the most common type of billboard is the large "bulletin" with a "face" or panel up to fourteen feet high and forty-eight feet wide mounted on one or more poles. The "poster" (12 feet high by 24 feet long) and the "junior poster" (6 feet high by 12 feet long) are also prevalent standards in the outdoor advertising industry.

Though posters and junior posters still use them, in recent years, printed and painted displays on bulletins have been replaced by images printed on vinyl sheets which are stretched across the face of the sign structure.

Billboard owners typically lease the land upon which their billboards are located. The lease is generally limited to an area large enough to accommodate the billboard and to allow for service and maintenance.

Such ground leases are usually for a period of ten years. The great majority of these agreements provide for a flat rental amount per month, although some landowners negotiate percentage leases.

Billboard ground leases normally contain clauses stating that the billboard situated on the land does not belong to the landowner. The standard ground lease also provides that the billboard owner or the tenant may terminate the lease with limited notice for specified reasons.

Assessment and Valuation of Billboards

When a billboard property is subject to ad valorem property tax assessment, any of the accepted approaches to value, income, sales, or cost, may be used. In the past there has been disagreement, however, about which method or methods should be applied. Given the unique character of billboard property and outdoor advertising industry practices, a method was needed that accurately reflected the value of the *tangible taxable property* while avoiding the inclusion of related intangible assets and rights (e.g. permits and advertising contracts), most of which are specifically exempt from property taxation in many states.

With these considerations in mind, the cost approach is the most suitable method for valuing billboards as it avoids nearly all of the pitfalls inherent in the other valuation approaches. First, the cost approach ignores the income generated by a sign or group of signs, and thus avoids including in a billboard's value any increment of value attributable to income generated by nontaxable intangible assets and rights associated with the billboard or a group of billboards.

In the same vein, the cost approach does not consider the "synergy" value created by multiple billboards, but looks to the reproduction or replacement cost for each individual advertising structure.

Because the cost approach focuses on valuing the individual sign structure and avoids inclusion of intangibles which are inherent in billboard revenues and billboard sales (e.g. permits and advertising contracts), it is the best way of determining value for the ad valorem taxation of outdoor advertising structures.

The key elements for application of the cost approach are (1) cost new and (2) depreciation. Cost new is usually based on reproduction or replacement cost, and can be determined by analyzing actual construction costs or construction cost indices developed by recognized costing services.

Depreciation includes both typical wear-and-tear due to the age of a sign structure as well as obsolescence caused by various sources such as an outdated sign structure or method of operation, changing traffic patterns or government regulation.

Conclusions

Because intangibles are exempt from taxation in most states, the emerging trend in assessment practice is to use the cost approach. None of the jurisdictions with large billboard populations have put into practice a system that suggest any other approach would be acceptable.

In fact, many states have warned that income and the comparative sales approaches tend to include intangible value and fail to overcome problems caused by analyzing advertising revenues generated by multiple billboards. In short, other methods are inefficient.

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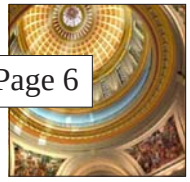

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In applying the cost approach, almost all leading jurisdictions call for use of a cost new based on actual construction costs, either as reported by the billboard owner or using construction cost indices. In addition, states with larger billboard populations use straight-line depreciation. Billboard lifetimes and the minimum percent good figures fall within fairly narrow ranges.

North Carolina and Texas have adopted a split approach, using 20 years for wood and 40 years for steel. A few other states have used 10 year trend tables. The great majority of states, however, and the Internal Revenue Code, give billboards a 20 year life. Most states have also concluded that 20% is a reasonable estimate of residual value.

The preceding survey of the states with the largest billboard populations demonstrates several emerging trends. Most notable, the cost approach is gaining broad acceptance. In addition, most outdoor advertising structures are assessed using straight-line depreciation over a 20 year life, and are assigned a 20% minimum percent good or residual value.

Editor's Note: *Information in this article is consistent with this year's Educational Conference class presented by Garfield County Assessor Wade Patterson on "Valuation of Billboards." When counties receive the Conference Proceedings CD-ROM, the class materials on billboard valuation presented by Wade will be included for reference. We encourage counties to use these materials, as well as the other training materials contained on the CD-ROM to assist in performing your duties.*

Property Tax News From Around The Country

Illinois

Illinois Governor Rod Blagojevich signed a bill in July raising the maximum income allowed for Illinois senior citizens to freeze their property's assessment.

The Senior Citizens Assessment Freeze Homestead Exemption allows senior citizens to freeze their property's assessment if their annual gross household income is $45,000 a year or lower. Previously, the maximum allowable amount per household was $40,000.

To qualify for the exemption, the applicant must be at least age 65 during the current taxable year and have a total household income of no more than $5,000 in the preceding year.

Indiana

A property tax relief plan proposed by Indiana Governor Joe Kernan advanced recently. The plan would provide one-time tax cuts to about 35,000 homeowners statewide, including 31,243 in Lake County and 3,223 in St. Joseph County.

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Continued from page 6 "Property Tax News From Around the Country"...

The 2002 tax bills exceeded 2 percent of the gross assessed value for the homes of these taxpayers. Under Kernan's plan, the state would loan counties enough money to cut bill to the 2 percent threshold, which Kernan calls a "circuit breaker."

Kernan is also proposing a permanent circuit breaker for the future, but that will require legislative approval.

According to a state analysis, Kernan's one-time relief plan would provide an average tax cut of $469 in St. Joseph County and $477 in Lake County.

Counties would repay the low-interest loans over five years, using the options of income taxes, reserve funds, budget cuts, or in Lake County, casino-tax revenues.

"This is a way for state government to be helpful," Kernan told members of the Property Tax Replacement Fund.

New Hampshire

New Hampshire Governor Craig Benson recently proposed capping what the state's poorest senior citizens pay in property taxes.

Benson proposed limiting the total state, county and local property taxes paid by people age 65 and older to 10 percent of their annual income. Benson said he's still working on some of the details—including an income test to limit eligibility to those who need the state help the most.

The program is estimated to cost the state about $9 million.

Benson first proposed a similar cap two years ago. Lawmakers instead left another tax relief program in place where eligibility is determined by income, not age.

Current law gives a break to low and moderate income homeowners on their state property tax, not their total property tax bill. The state program limits eligibility to single homeowners whose total household income is $20,000 or less. The income limit is $40,000 for married couples and heads of households.

New York

New York City Mayor Michael Bloomberg signed another property tax rebate order for city residents recently. A $400 rebate will be issued to eligible homeowners, co-op owners, and condo owners. The owners must use the properties as their primary residence.

The state legislature must still pass the bill. Mayor Bloomberg also gave the rebate last year as a "thank you" to property owners who paid an 18.5% property tax increase the year before when the city had a major budget deficit.

Pennsylvania

A plan to change school funding in Pennsylvania was sharply debated during the first public hearing on the matter. The Commonwealth Caucus has proposed increasing the transfer tax, collected when property is bought and sold, and would replace both the statewide sales tax and the school property tax with a new business receipts tax.

Both local and statewide Realtor associations objected to the increase in the state transfer tax, saying it would make it harder for many first-time home buyers to cover their closing costs, and prevent some from moving into bigger, better homes.

The proposal would raise the state's transfer tax from 1 percent to 3 percent, with the buyer and seller each paying half. Most municipalities also add their own local transfer tax. A new business receipts tax of 4.5 percent would also be created, while eliminating the statewide sales tax and the school property tax.

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... AND ELSEWHERE AROUND THE WORLD:

Calcutta, India

Calcutta officials want to scrap the current system of property taxation based upon the rent of the property, and move to a system that considers other factors. Property would be grouped into categories, taking into consideration physical infrastructure, income bracket of occupants, and value of the land combined with construction cost.

The other key determinants will include age of a building, occupancy status, type of structure, and use.

Jamaica

The government of Jamaica has initiated a public education program to encourage property owners to pay their property taxes. The campaign includes advertisements on radio, television and in the newspapers. Community meetings will also be staged in regional locations across the island, and a pamphlet is being produced that will explain various aspects of the tax.

The campaign, spearheaded by the Jamaica Information Service, will run for two months and ends in September.

Property tax in Jamaica represents the largest, single source of revenue for any of the local authorities. Payment compliance rates, however, that are traditionally under 50% have fallen to below 40% in recent times.

One of the functions of the campaign is reminding people of the services provided from the proceeds of the tax. "If taxpayers recognize how their funds will be utilized and see the benefits accruing to them, then they may be willing to comply voluntarily," said Local Government Ministry Director Calvert Thomas.

Services provided directly from the payment of property taxes include street lighting, garbage collection and disposal, rehabilitation of local roads and maintenance of community infrastructure. The tax is also used to support local administrative expenses and community-related projects.

Thomas said that it had been difficult for the local councils to manage the limited resources gained from property taxes to provide the level and diversity of services needed. According to him, the councils rely on central government, through the consolidated fund, to make up the difference. Currently the cost of providing local services amounts to approximately $3 billion.

Receive The "Forum" By Email:

To receive the "Ad Valorem Forum" by email, please forward your email address to Cyndi Heath at cheath@oktax.state.ok.us.

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Highlights of the 60th Annual Educational Conference

◊ Diamond Edition 60th Anniversary ◊

Jeff Spelman, Director of the Ad Valorem Division officially opens the 60th Anniversary "Diamond Edition" of the Educational Conference.

State Auditor and Inspector Jeff McMahan addresses Conference participants at the opening session Tuesday, August 10th.

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Continued from page 9 "60th Annual Educational Conference Highlights"...

Lieutenant Governor Mary Fallin recognizes William Mack of the Ad Valorem Division for 25 years of service to the State of Oklahoma.

Lieutenant Governor Mary Fallin expresses gratitude for the work of county assessors and their deputies during the opening session of the Conference.

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Continued from page 10 “60th Annual Educational Conference Highlights”...

Jewette Farley, CAE shares his thoughts on “The Importance of Market Value” to the Administrative and Appraisal sections at the Conference.

Conference attendees enjoy having their picture taken during an administrative session at the Southern Hills Marriott.

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County mappers gather for a session at the Educational Conference.

Steve Sutterfield, PPS, explains the Business Personal Property “square foot tables” to an attentive audience.

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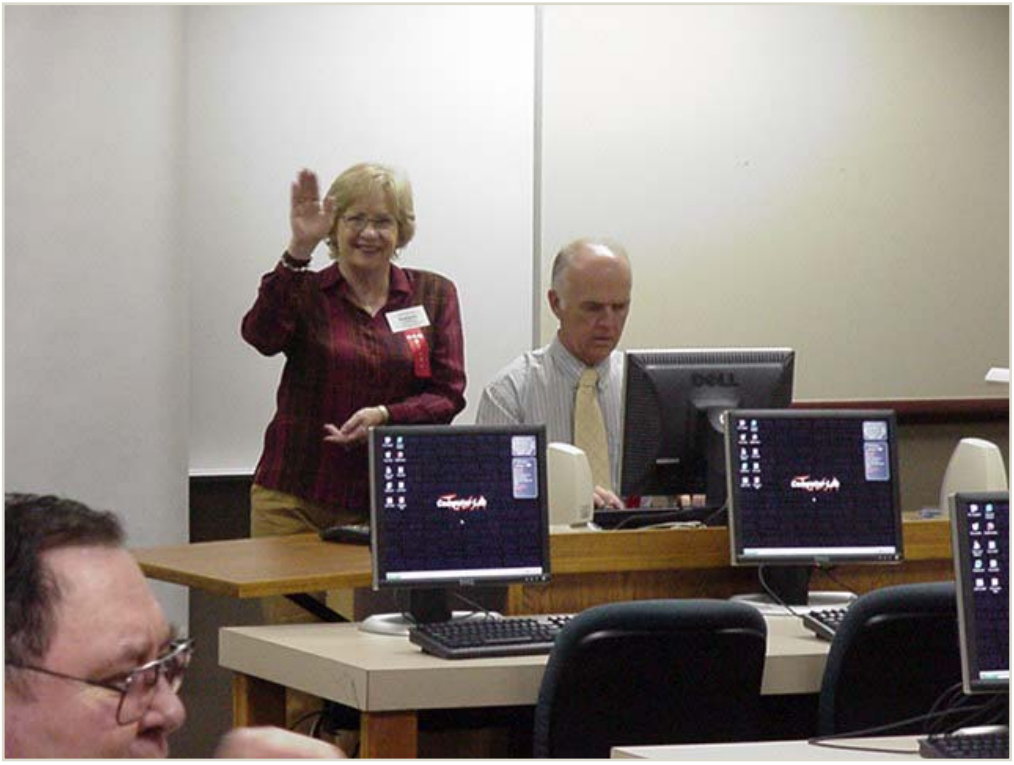
Smiles were abundant at the Conference, even in the “Cheap Seats.”



Marsha Rayborn and Glen Blood of the Ad Valorem Division provide computer instruction at the OSU Tulsa computer lab.

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Continued from page 13 “60th Annual Educational Conference Highlights”...

Lana Swad, Software Trainer with the OTC provides instruction to Conference participants on Microsoft PowerPoint at OSU Tulsa.

Jackson County Assessor J.C. Brooks and Kenny Chuculate, Deputy Director of the Ad Valorem Division find time between classes to share a few thoughts.

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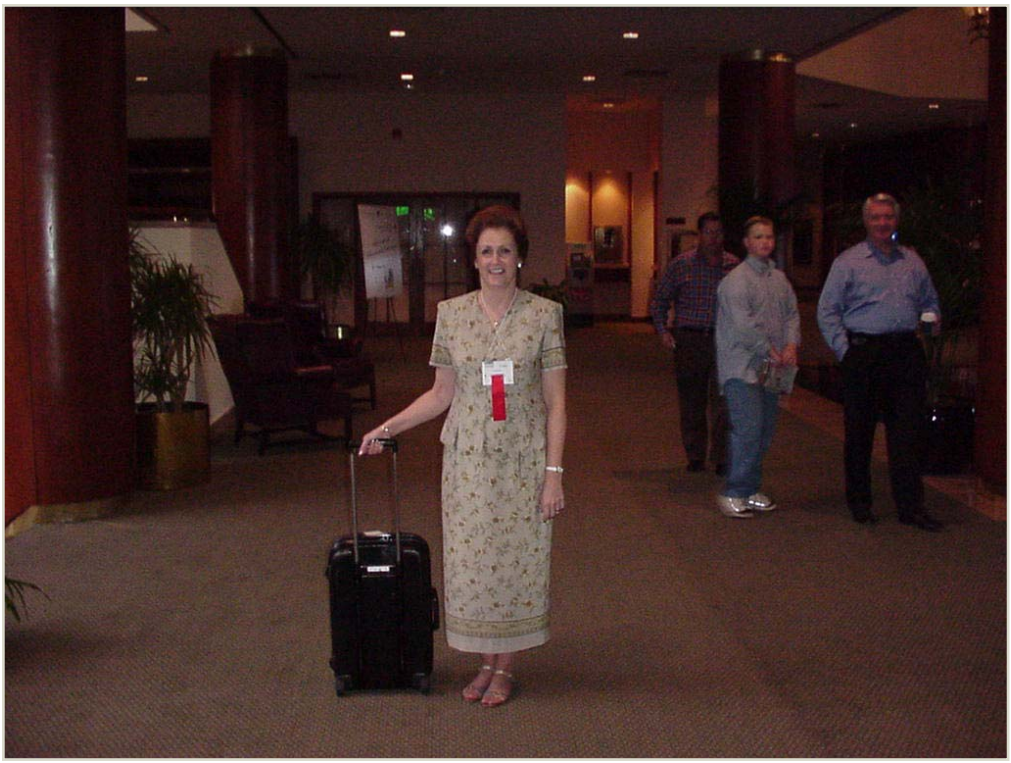
Conference participants rest and visit in the hotel lobby between sessions.



Cathy Gibson of the Ad Valorem Division takes a brief pause from Conference Activities at the 60th Annual Educational Conference for Assessing Officers.