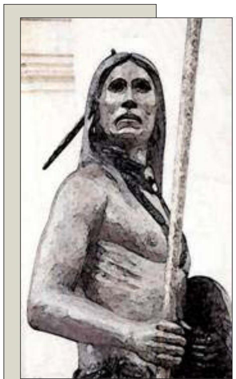


Oklahoma Ad Valorem FORUM

Volume XIII, Issue XII • December 2004

Director's Notes:

Happy Holidays to everyone!

Time for the annual review. Looking back over the _Ad Valorem Forum_ newsletters over the last year or so, we've had an exciting busy time. It is amazing how much things have changed and at the same time, how much things have stayed the same.

Year 2004 had some pretty positive achievements.

One of the biggest events of the year was the State Board of Equalization (SBOE) study of public service guidelines. The guidelines were examined and reaffirmed by the State Board of Equalization (SBOE). The Public Service valuation process is growing more complex every year, but we got our values out earlier even than last year and were able to assist with the various calls we got from counties. We appreciate the companies' efforts in trouble-shooting any problems or other issues.

The Windows update has been a hard task, but we're pleased with the progress. The program should be substantially settled in 2005. The Pen Based System is testing well, and it should pay off in the coming years. Thanks to Wade Patterson for his pioneering spirit.

We particularly appreciate all the county assessors and deputies who've helped us identify problems on that system, and the 4-C Committee. Debbie Gentry has done a great job working with all the groups involved.

I was also pleased with the mobile home program. We got some good assistance from Rosie Edwards, IT and Russ Nordstrom over in Motor Vehicle. That program seems to be working very well.

Thanks also to State Auditor and Inspector (SA&I) and Center for Local Government Technology (CLGT) Cooperative Extension and the County Assessors' Association since we had another terrific school in Tulsa. We have gotten lots of recognition for the size and content of our Annual Conference.

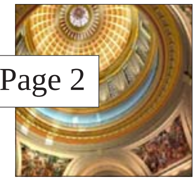
Our CAMA Personal Property system is doing well. Many more counties have invested the extra time and effort to get that system underway. We're all pleased with the results in improved accuracy and taxpayer service. I'm proud of the results. Any system that can save work, generate values, and give the taxpayer better service is exactly the right direction.

Troy Frazier has been able to visit a good number of counties, and we appreciate everyone's positive attitude toward the mapping training.

Continued on page 2...

A Look Ahead...

- **January 1, New Year's Day**
- **January 11-14, Oil & Gas II (Cost), Stillwater**
- **January 17, Martin Luther King Day**
- **January 25-27, Unit VIII, Commercial Case Study**



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As always, it is always about the people. County assessors and deputies, county treasurers, company representatives, State Auditor and Inspector (SA&I) and Center for Local Government Technology (CLGT), Cooperative Extension, the County Assessors’ Association and the Oklahoma Tax Commission have all continued a solid working relationship in the last few years.

We appreciate the hard work of all county assessors and deputies working to improve the Oklahoma ad valorem system and made it better than it was given to us. Merry Christmas and Happy New Year.

Sincerely,

Jeff Spelman, CAE
Ad Valorem Division

P.S. “Every raindrop I know dreams of being a stream, and every river dreams of being the sea, but the world will be a better place in the long run if not every shot glass gets to end up being a Big Gulp.” Quote from Anwar Caddo, World famous Ad Valorem Philosopher.

Public Service Update With Mike Isbell

All of us have heard of them and some of us have actually seen them. They come from out of the blue, usually with little or no warning. But there they are—and now you have to deal with them—the corrected certificate from public service.

First, what are they? They are corrections to the initial apportionment on public service property in that taxing jurisdiction. This correction can be caused by a new certified value of the public service company resulting from property being omitted from the initial certified value or from property being omitted from the initial allocation.

The correction may also be caused by property being sitused in the wrong taxing jurisdiction, which would not require a recertification of value. Any corrections are not limited to these examples as there is always something new and different each year, but these are the most common.

Why do they happen? Apportionment to the taxing jurisdictions happens after the twenty-day protest-filing period expires that exists for the companies after their certification of values by the State Board of Equalization. These values then go out to the counties and annually we field questions regarding the reporting companies assessed values to the respective counties.

These questions arise, we investigate and sometimes changes result. Sometimes they don’t, but the common goal is the reporting of property to its correct taxing jurisdiction. We do send out two verification printouts for each respective company, one before certification and one after, reporting their apportionment numbers by taxing jurisdiction for them to review and correct as needed to keep corrected certificates to a minimum, but they still happen.

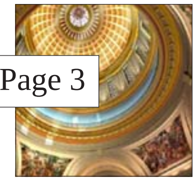
Now what? This section is responsible for the valuation of public service companies, railroads and airlines operating in the state of Oklahoma, the proper allocation of that value to the state and finally the correct apportionment of that value to the taxing jurisdictions. So when it isn’t right what do we do?

First we check to make sure that the property in question was included in the unit, or the going concerns financial data. From there we determine if it was included in the state allocation factors, those operational or cost numbers that we utilize to allocate the fair cash value of the going concern or system to Oklahoma.

Finally we check the apportionment to the taxing jurisdictions, supporting documentation such as legal descriptions or a physical address are required from the company at this level to affect a change.

Property omitted from the valuation or state allocation requires recertification of the fair cash value by the State Board of Equalization and requires a complete reapportionment of that company’s re-certified assessed value. When a correction is localized and involves one or two counties, the extent of the correction can be localized to just those taxing jurisdictions involved.

Here is where the counties get the corrected certificates and you do the tax roll corrections and make the notifications that you have to do. Not an easy process, but it is worth going through to get it right.



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2004 Year In Review

Once Again we have had a very successful year in the world of mapping. We were able to make sure that every county in the state had their very own copy of the 2003 color aerial photos.

We were able to give 30 counties copies of the new NRSC soil layers in whichever mapping format they are currently using. We converted soils into shapefiles, MIMS layers, and dxf layers. We were also able to give every county updated road, railroad, city, school, and precinct layers.

We visited 34 different counties for a total of 57 separate visits. During these visits, we did everything from software installation and training to hardware setup including hooking up plotters. We also conducted four separate 3-day regional training sessions on MIMS and ArcView.

As we get into 2005, if you want help, just ask for it. That's what we're here for.

Remember: *I'm from the Tax Commission, and I'm here to help!*

What Is The Sarbanes-Oxley Act?

At the County Assessors Association meeting recently, Michael Kemp, the new President of OATR gave a presentation that discussed new federal legislation called the Sarbanes-Oxley Act.

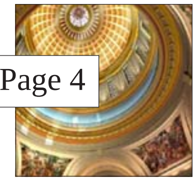
This new legislation (named for the two congressional authors of bill) is one of the most important pieces of legislation affecting corporate governance, financial disclosure and the accounting profession since the US securities laws of the early 1930s. Many corporations have been and will be continuing to take action in the next few months to be into compliance with the act.

The statute was enacted in the wake of the Enron scandal in 2001. It provides new requirements for the selection, use and rotation of auditors for companies covered under the act. The legislation also requires new practices for public company audit committees, disclosure, code of ethics for senior financial officers, and corporate reporting. It also includes new criminal penalties related to reporting.

Additional information is available on the Security Exchange Commission website www.sec.gov.

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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Property Tax News From Around The Country

Georgia...

A bill to replace school property taxes with a 3 percent increase in the Georgia sales tax was introduced in the 2004 General assembly, but got nowhere. Now the chief sponsors of the bill will be running the House, and they plan to use the clout of the new GOP majority to reintroduce the issue. If the measure wins approval, it could be on the ballot as a constitutional amendment as early as 2006.

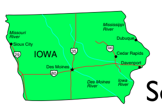
Indiana...

The Property Tax Replacement Study Commission recently decided not to dramatically reduce the reliance on the property tax in the near future. Committee members representing local governments opposed big change because their budgets rely so heavily on the property tax now.

The members who supported change felt timing was bad with Indiana facing an $800 million deficit. "There is little confidence," the report said, "in state government's ability to provide adequate replacement funds."

To translate, there's no way to do it without massive tax hikes or cuts in government programs.

Hoosiers currently pay $5.6 billion a year in property taxes. To halve that amount, without spending any less on government programs, would require—as one example—raising the individual income tax from 3.5 percent to 3.9 percent and the sales tax from 6 percent to 7 percent, plus placing a sales tax on certain services not now taxed, such as hair salons.



Iowa...

Some of the state's most powerful interests are pushing for a property-tax overhaul in the upcoming legislative session.

Ideas being considered include an increase in the share of property taxes paid by homeowners, the removal of some properties' tax-exempt status, and a shift of some school expenses away from being funded by property taxes.

The big winners would be owners of commercial and industrial property, whose decades of complaints provide much of the impetus for the changes, and local governments, which are hamstrung by the current system.

"Everyone says we need to do something," said state Rep. Jim Kurtenbach, R-Nevada, co-chairman of a House-Senate panel looking at ways to modify the tax. "What has always been difficult is identifying the limits of how far we go, what changes we make and how to make those changes in a cautious fashion so we do not do more damage."

Wisconsin...

With growth in state aid to schools slowing and that aid covering a smaller percentage of local school costs, property taxes to support schools in the five-county Milwaukee area are rising this fall at rates averaging more than twice the rate of inflation.

The total amount to be collected in property taxes to support schools in the five-county Milwaukee area will go up 6.3% this fall, according to a recent analysis.

Veterans of school finance struggles were not surprised by the increases—except that perhaps they were lower than might have been expected.

"This is a bad period of time, and it isn't going to end," said Ken Cole, Executive Director of the Wisconsin Association of School Boards.

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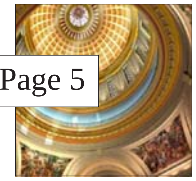

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Continued from page 4 "Property Tax News"...

...And Elsewhere Around The World – India

New Delhi will be reducing property taxes for some commercial and industrial property owners soon. The Municipal Corporation of Delhi (MCD) has proposed that industrial and commercial properties that are lying vacant be levied taxes with a use factor of "2" instead of "3" or "4", as is the current practice. The use factor is multiplied with the total covered area of the property to arrive on the net tax chargeable.

The higher use factor was the main complaint of factory owners who have been protesting against the significant rise in property tax they were supposed to pay.

Property Tax Cap Initiatives Spread Across Country

Excerpts From An Article By Rob Gurwitt Appearing In the December, 2004 Issue of Governing Magazine

After a three-year period in which state and local reliance on property taxes grew noticeably, sentiment for capping those taxes appears to be bubbling to the surface again. The issue is percolating in several state legislatures, including Nevada and Iowa. In South Carolina, the legislature recently passed a measure capping increases in property values at 20 percent for assessment purposes.

At the local level, voters in Houston approved two competing tax-relief measures on November 2, although they gave more of their votes to an initiative focused narrowly on limiting property tax and water-sewer rate increases.

Meanwhile, Maine voters this November resoundingly rejected a measure to cap property taxes at 1 percent of assessed value. The rebuff stemmed from fear of the initiative's impact on local government, but lower property taxes are still high on the public's agenda, says Sandy Maisel, director of the Goldfarb Center for Public Affairs at Colby College.

"For six years, the legislature didn't do anything, and it should have," he says. Indeed, on Election Day, Democratic Governor John Baldacci said he would send the legislature a tax-relief measure this month and keep it in session until the issue is resolved.

Maine ranks first in property taxes as a share of personal income, according to the Washington, D.C.-based Tax Foundation, but it is hardly alone in having seen both rising property taxes and rising reliance on them. In a study prepared for the Wall Street Journal earlier this year, economist Robert Tannenwald of the Federal Reserve Bank of Boston found that from 2001 to 2004, property taxes rose substantially as a share of total state and local tax revenues—jumping from 25.5 percent of total revenues in the first quarter of 2001 to 28.2 percent in the same quarter of 2004. "That is a rather unprecedented rise over a three-year period," Tannenwald says.

One reason for the jump is statistical: The relative share of personal income tax revenues fell by a comparable percentage because of the stock market bust and the recession. But there also was an increase in property taxes overall, as states cut back on aid to localities. Faced with the choice of cutting spending or raising taxes, local governments tended to opt for the latter.

"Politically, it might have been relatively easy to raise property taxes because property values have been rising so rapidly," Tannenwald says. "They could raise taxes without raising the statutory rate; in fact, they could even cut the rate a bit and still increase revenues."

It might seem, then, that as other tax revenues recover, the pressure on property taxes ought to decline—and with it, the political pressure to do something about them. In its study of state tax revenues for the second quarter of 2004, the Rockefeller Institute of Government at SUNY-Albany noted an overall increase of 11.3 percent compared with the same quarter in 2003—the fourth straight quarter of real adjusted growth after eight straight quarters of decline, moving state tax growth back to pre-2001 recession levels.

But Harley Duncan, executive director of the Federation of Tax Administrators, does not expect that to translate into reduced reliance on property taxes. "Revenues aren't growing fast enough to make up for the state aid cuts," he says. "And there are so many demands on states."