



OREGON STATE ASSOCIATION OF COUNTY ASSESSORS

HOUSE BILL 2572
Property Tax Account Component Appeals
Testimony of OSACA: SUPPORT
Senate Committee on Finance and Revenue
Public Hearing, May 25, 2011

MEASURE: HB 2572
EXHIBIT: EC
Senate Finance and Revenue 76th Session
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This bill closes a loophole that has been used to obtain real market values (RMV) on the tax roll that are well-below appropriate market values.

- Existing law permits taxpayers to appeal the value of just one component of their property, the land or the improvements.
 - As set forth below, there are many good reasons for allowing component appeals and this bill does not limit the right to bring such appeals.
- However, existing law does not permit assessors to defend the total value of a property tax account as part of a single-component appeal.
 - Consequently, a component appeal can result in placing a reduced total value on the tax roll that is well-below the market value confirmed by accepted appraisal methods.
- Example:
 - Assume that accepted appraisal methods support total RMV of \$10M;
 - On the tax roll, assessor allocates \$1M to land and \$9M to improvements;
 - Taxpayer appeals only the value of the improvements;
 - At trial, taxpayer establishes a land value of \$4M, which means the value of the improvements must be \$6M (\$10M total value – \$4M land value).
 - Note: Despite establishing a higher land value at trial, the land value on the tax roll will not change because land value is not at issue in the appeal.
 - The taxpayer established a higher land value only for purposes of establishing a lower improvement value at trial.
 - Result:
 - Total RMV on the tax roll is reduced from \$10M to \$7M, a **\$3M reduction that is not supported by accepted appraisal methods.**

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|-------|-------|---|
| | \$10M | (total value supported by appraisal methods) |
| - | \$1M | (land value on tax roll) |
| - | \$6M | (improvement value established at trial) |
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| | \$3M | Reduction in total value <i>not</i> supported by accepted appraisal methods |



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- **Substantial Concern:** When this loophole is exploited to establish a reduced value that is then used to calculate MAV, **the artificially-low total value is fixed on the tax roll forever**.
- **Abuse:** This loophole has been exploited at least twice in the last two years:
 - In Marion County, the taxpayer and assessor *actually agreed* on the total value of the account, but then the taxpayer exploited the loophole to obtain a **\$4M reduction in total value**. *Willamette Estates, II LLC v Assessor* (2009).
 - In Clackamas County, a taxpayer is currently attempting to exploit the loophole to obtain a **reduction in total value between \$7M–\$9M**. *Village at Main Street v Assessor*.

This bill closes the loophole by authorizing assessors, or any other party, to defend total RMV in single-component appeals.

- The bill does not deprive taxpayers of the right to ensure accuracy in the allocation of total RMV to the various components of property
- The bill preserves component appeal rights because accurate allocation of value to the components of property is important for:
 - (1) Mortgages – used by lending agencies to determine the value imputable to the land;
 - (2) Accounting – facilitates calculation of depreciation of improvement value;
 - (3) Appraising – used in determining the highest and best use of the land as well as economic obsolescence of improvements;
 - (4) Leases – for computing the amount of the reversion;
 - (5) Residual Techniques – for computation of the return to buildings.

This bill helps maintain fairness and equity in the property tax system by prevent the use of the existing process to undermine accurately appraised total RMV.