

HB 2487 - Apportionment Reductions of Maximum Assessed Value

Problem

The statutory method for reducing maximum assessed value when a square footage error is discovered is flawed in that it assumes that all square footage has equal value.

Solution

Remove the “equal value” concept. Replace it with the concept that makes the change proportional to the change in real market value. Neither existing law nor this bill provides for increasing maximum assessed value or taxable value of property. Passage of this bill will lead to more opportunities for assessors to correct errors and more accurately reflect a property’s value.

Background

Maximum assessed value (MAV) was created in the 1997 voter approved passage of Measure 50 and is limited in its growth to 3%. Measure 50 did not provide for reductions in maximum assessed value. Over the years a handful of laws have been passed that allow for a reduction in narrow circumstances. One of those was proposed by assessors and adopted in 2001 and provided for reduction for square footage errors.

Under current law, the assessor may reduce maximum assessed value (MAV) if a taxpayer informs the assessor that the actual square footage of the taxpayer’s property is less than that shown in the assessor’s records. However, the law requires the reduction to be proportionate to the difference in square footage, a calculation which is not consistent with appraisal standards. It is commonly and professionally recognized that not all square footage is valued the same. For example, the square footage of adding a sixth bathroom to a two bedroom house would not be recognized by the market as adding the same market value as the first bathroom.

Consequently, this tool is not used by the assessors as often as it could be because the “proportionality” requirement forces an assessment that may be either erroneously high or low.

Assessors and the department support a change in the measure by which the adjustment is made. The adjustment should be based proportionally on the change in real market value (RMV) due to the correction of the square footage. The MAV should be adjusted according to the market value being removed due to the error.

For example: If the assessor’s records reflect an erroneously added additional bathroom that amounted to 5% of square footage to a \$1 million home, proportionally under current law, the assessor could change the value by \$50,000 or choose not to make the change. Assuming the assessor believes the erroneously added square footage was worth no more value than \$10,000 then under this concept the assessor could make the change which would benefit the homeowner.