



# NORTH DAKOTA OFFICE OF STATE TAX COMMISSIONER PROPERTY TAX NEWSLETTER

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The 64th Legislative Assembly convenes January 6, 2015, at the state capitol in Bismarck. Legislative information is available at the following web site: [www.legis.nd.gov/assembly/64-2015](http://www.legis.nd.gov/assembly/64-2015).

Many interim committee discussions revolved around property tax related issues. Assessment and government officials are encouraged to review the specific content of proposed bills.

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Citizen participation in the legislative process is important. If you or your governing board have concerns regarding property tax issues that you consider worthy of legislation, contact your local legislative representatives or North Dakota Association of Assessing Officers Legislative Committee. It is important to voice your opinions to personnel in the Property Tax Division, your area legislators and those who are on the Finance and Taxation Committee or other legislative committees. Anyone may testify at the committee hearings. Governmental officials should provide accurate information that affects the application of proposed legislation and they should make positive suggestions to the committees.

## Assessments and Property Taxes

Real estate tax statements were mailed to property owners in December. Because assessment officials determine the values for property tax purposes, they often get questioned or blamed for increases in property taxes. When this happens, assessment officials have an opportunity to educate property owners about the property tax system.

The property tax system has two parts – the assessment or valuation side and the budget or levy side. Assessors are responsible for estimating the true and full value of real property for taxation purposes. The governing board of each taxing district are responsible for developing a budget based on the funding needs for the upcoming tax year. Using both the total valuation for a jurisdiction and the budgetary needs determined by the appropriate governing body, the county auditor calculates the rate used to determine the amount of property tax.

Assessment officials are required to have property records for all property within their jurisdiction. They should be able to show a property owner the information obtained about the property in question and explain the process used and support for determining the true and full value for that property. Assessment officials may want to direct the property owner to the appropriate governing board for an explanation of its reasoning for the budget developed for the current tax year. Assessment officials should be willing to provide an explanation of the valuation determined for a property. They can encourage property owners to attend budget hearings for the various taxing districts, especially the major ones such as school, city, county, and park districts. Assessment officials can provide good public service by informing property owners of the appeal processes and referring them to the Taxpayer Bill of Rights which is available on the Tax Commissioner’s website at [www.nd.gov/tax/genpubs/bill-of-rights](http://www.nd.gov/tax/genpubs/bill-of-rights). A brief explanation of the assessment process and appeal processes begin on page 7 of the brochure.

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## Assessment Reminders

The following are reminders of assessment duties for this time of year.

- Sales Ratio Study
  - Verify sales transactions to determine whether sales are valid indicators of market.
    - Contact parties to the transactions to determine motives of the parties, conditions of sale, and whether the sales price included value of personal property.
    - Physically inspect properties that sell to determine the current status of property at time of sale and the accuracy of information listed on property record.
    - Develop a spreadsheet containing sales information by property class (residential, commercial) and property type (e.g., single family, apartments, office buildings, retail, warehouses, vacant land, mobile homes, etc.).
  - Submit challenges of sales transactions to the Property Tax Division.
    - Must be a valid reason for challenging.
- Analyze sales information to review cost and depreciation estimates, and trending factors for updating assessments.
- Work on completing physical inspections and measuring of buildings for determining next year's assessments.
  - E.g., status of new construction, remodeling, additions to existing buildings, demolition.
    - Status as of assessment date.
  - Review status of assessments within certain neighborhoods, between similar property types
  - Update property records with current property information.
- Complete spot checks for changes to assessments.
  - E.g., mobile homes moved in, status of exemptions, homestead credit eligibility, change of property classification, etc.
- Review equalization of property assessments.
  - E.g., Assessments should be similar for similar soil types of agricultural land, vacant land parcels, similar single-family and multi-family residential properties, similar commercial properties.
    - Note: agricultural land assessments are based on productive value; residential and commercial property assessments should represent current market value.
  - Review sales ratio statistics for residential and commercial property.
    - Categorize sales information by building type (e.g., 1-story, 2-story, etc. residences, warehouses, office buildings, mobile homes, etc.).
    - Develop and examine not only the median ratio but also the coefficient of dispersion and price-related differential
      - If statistics indicate assessments are not within allowable ranges, make changes to assessments to properly reflect market value.
- Annexation of property into the assessment jurisdiction during the year.
  - Develop property records, physically inspect and measure buildings, establish values for next assessment year.
- Splits and combinations of assessment parcels – change legal descriptions on property records or make new property records as needed; determine revised valuations and submit lists to county auditor and treasurer by date requested.
- Omitted property.
  - If any property escaped assessment for the current year, physically inspect and establish value for county auditor to add assessment according to the provisions of North Dakota Century Code (N.D.C.C.) §§ 57-14-01 through 57-14-07.
- Reconcile all assessments, credits, and exemptions in computer programs.
- Review resolutions passed by governing boards to allow discretionary exemptions; confirm that they are still current.

- Prepare applications for mailing.
  - Homestead credit, disabled veteran's credit, property tax exemptions, farm residence exemption, and mobile homes.
- After determination of mill rates, complete Abstracts for Game & Fish, Board of University & School Lands
  - Provide copies as directed on abstracts.
- Tax directors
  - Prepare for and attend meetings of soils committee and township officers.
  - Determine date(s) for annual assessor seminar; prepare information and materials.
  - Analyze mobile home sales information to determine costs and depreciation amounts for local mobile home schedule.
  - Provide county sheriff with information for collection of delinquent mobile home taxes.
  - After receiving certification of agricultural land values from the tax commissioner, inform board of county commissioners of average values and percentage of change necessary to be within compliance.

The above duties are general in nature. Your office may have specific duties and time lines identified for this time of year. If you have any questions regarding any of these duties, you may contact the Property Tax Division.

## Applications for Abatement

November 1 was the deadline for filing applications for abatement or refund of tax for a property assessment determined in 2012. Governing boards have no statutory authority to grant approval of an application for abatement or refund of the 2012 tax submitted after November 1, 2014.

It is very important that assessment officials adhere to statutory dates required for notification and completion of the abatement process. The courts have not ruled favorably on governing boards' actions when property owners were not allowed proper notification and timely hearings.

Within five business days of the filing of an application for abatement in the county auditor's office, the county auditor must present a copy of the application to the city auditor or township clerk, depending on the location of the applicant's property. Within ten days after receiving the application for abatement, the city auditor or township clerk must provide the applicant with notification of the hearing before the governing board or designated committee. This hearing must be held within 60 days after the date listed on the notice of hearing. It is very important that the applicant receives notice of the hearing. Not only is it required by law, but it allows the applicant an opportunity to provide the governing board with information to support the applicant's claim for reduction in value and to answer questions.

Whenever county auditors receive an application for which the local governing board did not notify the applicant prior to the hearing, the county auditor should return the application to the city auditor or township clerk with instructions that the applicant must be notified of the hearing scheduled before the local governing board. The local governing board needs to make a recommendation based upon all facts presented at the meeting. It is very helpful when the local governing board provides a written explanation of the basis for its recommendation.

The city auditor or township clerk must submit the recommendation of the local governing board regarding the application back to the county auditor within 30 days of the hearing date. At least 10 days prior to the hearing of the application before the board of county commissioners, the county auditor must mail a written notice to the applicant of the date, time and place of the hearing. At the hearing, the applicant, or the applicant's representative, may present any evidence to the board that would be pertinent to the application and must provide additional information requested by the board.

When determining whether or not to grant an abatement or refund of tax, boards of county commissioners generally give considerable weight to the recommendation of the local governing board. Therefore, it is very important that the local governing boards allow applicants the opportunity to present information to support their claim and the assessor an opportunity to support his/her estimate of value. Written explanation of the local governing board's decision for their recommendation is very helpful to the board of county commissioners in making its determination regarding the application.

When county auditors forward abatement applications to a city auditor or township clerk, it would be very beneficial if they remind those local officials of the requirements for proper notification and timely meetings.

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## **Proper Application of the Assessment Sales Ratio Study**

The Sales Ratio Study (Study) is conducted by the Office of State Tax Commissioner to measure the quality, accuracy, and uniformity of real property assessments. Its purpose is to guide local and county assessment officials and governing boards to value residential and commercial property at current market value and equalize assessments within their jurisdictions. If the statistics indicate that some properties are under- or over-assessed, assessment officials should make changes to assessments so that they represent true and full value and assessments are equalized among similar properties.

The Office of State Tax Commissioner also uses the statistics in the Study to make recommendations to the State Board of Equalization (Board) regarding equalization of locally assessed real property. The Board approves assessments of residential and commercial property that are indicative of 90 to 100 percent of market value based on the median ratio. When the statistics indicate that real property assessments are not within the allowed tolerance level, the Board will order a percentage change to assessments. Changes made to assessments that are based on sales ratio statistics affect property taxes that will be paid by all classes of taxpayers. Therefore, it is very important that individual assessments represent current market value and similar properties have similar assessments.

The assessor should review the sales ratio statistics and use that market information to review and change assessments, if necessary, of properties of a certain style or type, or property groups within a neighborhood or jurisdiction. Proper assessment practices produce assessments that represent actual market value and are equitable with similar properties and groups of properties. When the assessor fails to assess residential and commercial properties at current market value and equitably within a class of property, the county and state boards of equalization have the responsibility to ensure assessments are within the allowed established tolerance level (90 to 100 percent of market value). When the county or state board of equalization needs to order a percentage increase or decrease to all assessments within a class of property, any properties that are over-assessed or under-assessed by the assessor will have assessments further away from market value. Owners of property that is assessed above or below established market value pay either too much or too little property tax.

It is important that assessors and county directors of tax equalization conduct their Assessment Sales Ratio Study with integrity. Assessors should use the statistics in the Assessment Sales Ratio Study to analyze assessments and determine whether assessments need to be changed for the next assessment. Any adjustment made to assessments should result from examination of accurate, reliable information. Assessment officials should verify sales transactions with either the buyer or seller of the transaction to determine if the transaction meets the definition of market value and if the sale price includes consideration of any personal property transferred in the transaction. Section S of the Property Taxation Manual includes a Sales Confirmation Questionnaire (S-14 & 15) that assessment officials may use to verify the terms of sales transactions.

For the 2015 Assessment Sales Ratio Study, assessment officials are comparing the 2014 assessments as finalized by the State Board of Equalization to the sales prices of transactions occurring during 2014 (2014 T & F values divided by 2014 sale prices). Assessment jurisdictions are required to provide a sample size of at least 30 sales transactions each for residential and commercial property. If a county does not have 300 properties within a class of property, the tax director may submit a sample size of sales that represent ten percent of the total number of properties within that classification. For example, if a county only has 260 commercial properties, the tax director needs to submit 26 sales transactions for the Study. Many jurisdictions do not have enough sales transactions within the current period (2014). If not, the assessment official should review the sales transactions that took place during 2013, make sure there were no physical changes made to property since the time of sale, and, if the sale is usable in the Study, calculate the assessment sales ratio for those properties using the 2014 true and full value and the 2013 sales price. An assessment official using sales from a prior year must include all usable sales transactions during that year to supplement the Study. If, after including 2013 sales, there still isn't a sufficient number of sales to meet the sample-size requirement for the Study, the assessment official may include usable 2012 sales transactions, and if necessary, 2011 transactions. The ratios for usable prior-year sales transactions are calculated by dividing the 2014 true and full value of those properties by the sale price. If inclusion of all usable current and prior-year sales does not provide an adequate sample size, the assessment official needs to complete appraisals to supplement the Study. In order to complete appraisals, the assessment official must have certification status as a county director of tax equalization or class I city assessor, or the official needs to make arrangements with a certified assessment official to complete independent appraisals. The official may appraise properties similar to those that have sold so there are sales transactions available to measure market value.

Assessment officials recently received a printout from the Tax Commissioner's Office. This printout contains statistics developed by comparison of 2014 true and full values to the 2014 sales prices of sales transactions from January through August. The information indicates the status of assessments compared to market value. Agricultural land is not assessed according to market value; however, assessments of residential and commercial property, including vacant land should represent market value or close to it. Assessment officials need to review the printout to ensure the information is accurate. Notify the Tax Commissioner's Office of any errors or sales transactions that may be challenged.

Analyze the statistics by neighborhoods, cities, and townships. If assessments accurately reflect current market value, the ratios for the sales transactions within a class of property (e.g., residential) should cluster around .95 to 100 percent and the range (difference between the highest and lowest ratio) of ratios will be low, e.g., 0.05 (5%). If the range of ratios is high, e.g., 5.32 to 0.46 (532% to 46%), the range indicates assessments are all over the place and do not accurately reflect current market value. The median ratio represents the middle ratio when the ratios are arrayed in order of magnitude. When the median ratio is close to 1.00 or 100%, on average, the assessments represent current market value. The coefficient of dispersion (COD) is a statistic that indicates the uniformity of assessments. Low CODs (15.0 or less) tend to indicate good appraisal uniformity. The goal of property appraisal for assessment purposes is equal tax burden between high- and low-value properties within the same property group. The price-related differential (PRD) is a statistic that measures assessment regressivity or progressivity. Appraisals are regressive if high-value properties are under-appraised compared to low-value properties and progressive if high-value properties are relatively over-appraised. A PRD greater than 1.00 suggests that high-value properties are under appraised while a PRD less than 1.00 suggests high-value parcels are relatively over-appraised. If older, smaller residences aren't physically inspected periodically and assessments aren't adjusted to properly reflect current market value, those assessments may be regressive and property owners may pay excessive property taxes. Ideally, the PRD should be between 0.98 and 1.03.

This is a good time to review the statistics indicated in the Assessment Sales Ratio Study. As the assessment official, you are charged with the responsibility of appraising residential and commercial property at current market ensuring that similar properties are valued similarly so the property tax burden is equitable between similar properties. Use the statistics in the Study as a guide to determine what you need to do to improve assessments for the next assessment year. If the statistics indicate assessments are outside of the standards recommended by the International Association of Assessing Officers, work on the assessments of groups of property needing review and reappraisal. Property owners know what current market value is and if they know that their property is assessed properly and equitably with similar properties, they will respect assessment officials and the assessment process of the property tax system.

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## Assessor Education

The Office of State Tax Commissioner, in conjunction with the North Dakota Association of Assessing Officers, conducted Course 202 – Agricultural Land Valuation Nov. 17-21, 2014. Dustin Bakken, Stutsman County Tax Director, provided the instruction.

Two assessment/appraisal courses are currently scheduled in 2015. Course 201, a residential property appraisal course, will be conducted May 11-15, 2015. This course pertains to the theory and practice of appraising residential property for assessment purposes. Course 102 – Principles and Theory of Value will be conducted Nov. 16-20, 2015. This course is an introductory course pertaining to the principles and theory involved in real estate appraisal.

Plans are being made to offer Course 101 – Tax Administration in 2015. Details will be provided as soon as they are confirmed. This course covers the basics of assessment administration, including but not limited to, an introduction to ad valorem taxation, mathematics, property tax statutes, credits and exemptions, mobile home taxation, reporting forms and abstracts, the sales ratio study, and the appeal processes. Course 101 is required for certification status as a county director of tax equalization or class I city assessor; however, the instruction is very beneficial for personnel working within the offices of assessment officials and the county auditor.

Specific course and registration information will be emailed to county directors of tax equalization, class I city assessors, and county auditors approximately six to eight weeks prior to each course offering. For more information regarding these courses, contact Kim Vietmeier. You may email her at [kmvietmeier@nd.gov](mailto:kmvietmeier@nd.gov).

## Electronic Newsletter

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