

PROPERTY TAX 101: ASSESSMENT AND TAXATION



Property Tax Timeline

- ▶ November 1st Legal Assessment Date
- ▶ March 1st Assessment Notices Mailed
- ▶ March - June Appeal Process - Local and County Boards of Equalization, OHE
- ▶ July Provisional Budget Due
- ▶ July - Sept Budget Hearings
- ▶ September Final Budget Due
- ▶ October 1st Property tax requests due to County Auditor
- ▶ Nov - Dec Levies Calculated and Certified
- ▶ January 1st Tax Bills Mailed - Taxes Due and Payable

Definitions

- ▶ **Assessed Value:** Value indicated on assessment notice
Full market value in South Dakota
- ▶ **Taxable Value:** Value indicated on tax bill
Equalized to 85% of full market value
- ▶ **Equalization or Taxable Factor:** Multiplier that converts assessed value to taxable value
Determined by the Department of Revenue (based upon sales statistics)
- ▶ **Levy:** Tax Rate
Expressed as dollars of tax per \$1,000 of taxable value
Result of budget divided by total taxable value
- ▶ **Budget:** Amount of tax requested by the government entity

Property Tax in South Dakota

- ▶ Primary source of revenue for local governments
- ▶ The State of South Dakota does not collect or spend any property tax dollars
- ▶ Property tax is *Ad Valorem* (According to Value)
- ▶ SDCL 10-6-33 requires all property to be assessed at “its true and full value”
 - ▶ True and full value is full market value
 - ▶ Assessed value is not a percentage of market value
- ▶ Equalization means all property assessed at market value
- ▶ All property is assessed every year
 - ▶ Assessment date is Nov 1st of the previous year

Determining Assessed Value

Mass Appraisal Process

- ▶ Staff appraisers inspect properties and collect property details such as: year built, condition, size, quality, basement finish, number of bathrooms, etc.
- ▶ Proper procedure is to inspect all properties every 5 to 7 years
- ▶ Property data is maintained in a CAMA (Computer Assisted Mass Appraisal) software
- ▶ Sales information is verified and analyzed
- ▶ All 3 traditional approaches to value are considered
 - ▶ Cost Approach
 - ▶ Sales Comparison Approach
 - ▶ Income Approach
- ▶ Valuation models are created
 - ▶ Formulas that represent the market
 - ▶ Value all properties consistently and equally



Changes from Year to Year

- ▶ All property is assessed every year
 - ▶ Even if not physically inspected
- ▶ Assessed values can change for a variety of reasons
 - ▶ The property physically changes → additions to or depreciation
 - ▶ The market changes → fluctuations up or down
 - ▶ The previous year assessment was incorrect
- ▶ Goal is accurate assessments on all properties, not the same percentage change on all properties
 - ▶ Properties may change in value at different rates
 - ▶ Blanket assessment changes are poor practice



Assessment Appeals

- ▶ After assessment notices are mailed
 - ▶ No changes to any assessed value, for any reason, except by a Board of Equalization or OHE
- ▶ Must file written notice of appeal before deadlines
- ▶ All boards of equalization meet in open, public meetings
 - ▶ Cannot start before a date specified in law
 - ▶ Have to complete work by a specific date set in law
 - ▶ An appeal is on the accuracy of the assessed value or the classification, not on the tax
- ▶ After all Boards of Equalization and OHE hearings are complete
 - ▶ Assessment is set and calculation of levies can begin

How is Assessment Accuracy Measured?

Sale Ratio Analysis

- ▶ Compares assessed value to sale price on all open market sales

- ▶ Assessed Value/Sale Price

$$\$90,000 \div \$100,000 = 90\%$$

- ▶ Primary measure is median ratio for all sales

- ▶ A 90% median sale ratio means that all property is generally assessed at 90% of market value

- ▶ Additional statistical measures

- ▶ COD (Coefficient of Dispersion) - Measures how close to the median ratio the average property is assessed

- ▶ PRD (Price Related Differential) - Measures relationship in assessment between high and low valued properties

Annual Department of Revenue Audit

- ▶ Department of Revenue Audits all Sales/Transfers for the Year
 - ▶ Ensures assessment accuracy and uniformity
 - ▶ Median sale ratio and other statistical measures are reviewed to determine level of assessment
 - ▶ Median is primary tool used to set the taxable factor for that county
 - ▶ State law requires minimum accuracy measures:
 - ▶ Median sale ratio of at least 85%
 - ▶ COD less than 25%
- ▶ Compliance Audit
 - ▶ Audit of office procedures for every county equalization office
 - ▶ Report of audit is sent to the Commission



Tax Formulas

- ▶ **Assessed Value x Taxable Factor = Taxable Value**
 - ▶ $\$100,000 \times .90 = \$90,000$
- ▶ **Property Tax Budget \div Total Taxable Value = Levy**
 - ▶ $\$1 \text{ million} \div \$70 \text{ million} = .014286$
- ▶ **Taxable Value x Levy = Tax Due**
 - ▶ $\$90,000 \times .014286 = \$1,286$

What is Taxable Value?

▶ SDCL 10-1-37

“Property taxes shall be levied on valuations where the median level of assessment represents 85% of the market value as determined by the Department of Revenue.”

▶ Percentage of assessed value

▶ \$100,000 (Assessed) X .90 = **\$90,000** (Taxable)

▶ Value shown on the tax bill

▶ Value used to calculate the levies and to which those levies are applied

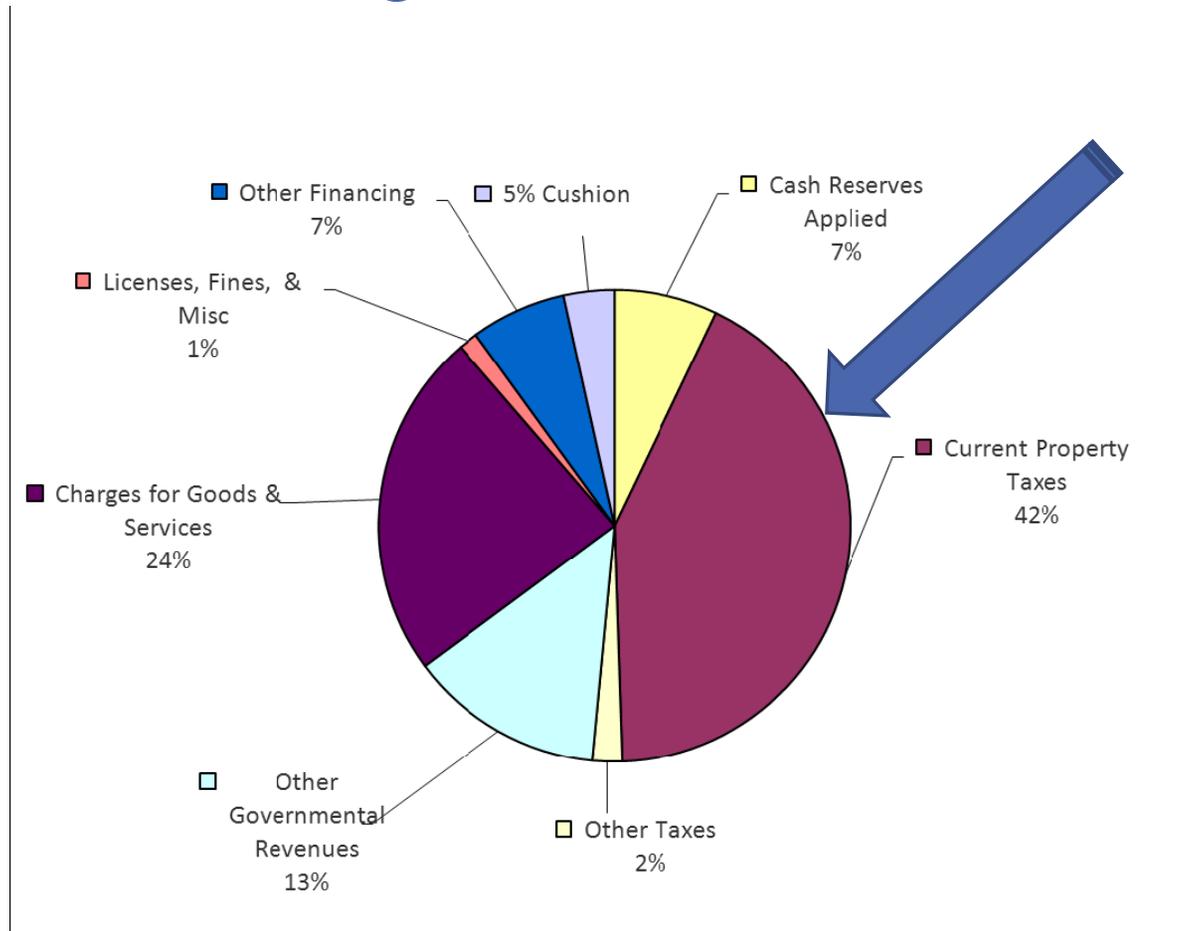
What is an Equalization (Taxable) Factor?

- ▶ Factor that converts assessed value to taxable value
 - ▶ \$100,000 (Assessed) X **.90** = \$90,000 (Taxable)
- ▶ Assigned annually to each county by the Department of Revenue
 - ▶ Result of the audit of the county sales data
 - ▶ Based on overall median sales ratio (i.e. level of assessment)
- ▶ Factor adjusts assessed value to 85% of market value
 - ▶ If level of assessment is 100% of market value → Factor is .850
 - ▶ If level of assessment is 85% of market value → Factor is 1.00
 - ▶ If level of assessment is 90% of market value → Factor is .944

Tax Formulas

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- ▶ Property Tax Budget ÷ Total Taxable Value = Levy
 - ▶ \$1 million ÷ \$70 million = .014286
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Property Taxes are Only a Portion of the Total Budget



Property Tax Budget Request

- ▶ Set by the governing body of the taxing entity - Commission, School Board, City Council, etc.
- ▶ Amount of property taxes needed to compliment the budget to provide services

• County	• Ambulance Districts
• Cities	• Rural Fire Protection Districts
• Townships	• Water Development Districts
• Schools	• Water Project/Watershed Districts
• Road Districts	• Sanitary/Sewer Districts

Property Tax Request Limitations (except school districts)

The amount of taxes an entity may receive is capped based upon what they received last year, increased by:

- ▶ Economic index factor of 3% or the CPI, whichever is less
- ▶ Percentage of new construction that occurred within the last year
- ❖ Consumer Price Index (CPI)
 - ▶ SDCL 10-13-38- Federal index representing the annual percentage change in prices paid for goods and services by urban wage earners and clerical workers
 - ▶ Provided to the County by the Department of Revenue
 - ▶ Same for all taxing entities
- ❖ New Growth
 - ▶ New property added to the tax roll
 - ▶ Does not include change in value due to reappraisal



What is Stored CPI?

State Law allows for certain entities to store any unused CPI from the previous 3 years

- ▶ County was allowed in 2002 Legislative Session
- ▶ Fire Districts were allowed in 2004 Session
- ▶ Cities were allowed in 2010

10-13-35.5. Revenue payable from real property taxes may be increased. The county or municipality may increase the total amount of revenue payable from taxes on real property in any year up to the maximum amount calculated in accordance with § 10-13-35.4 utilizing any unused index factor from the prior three years. However, such an amount may not exceed the prior three year index factor total or ten percent, whichever is less.

Calculation of Levies

- ▶ Tax Rate, Mill Levy, and Levy are often used interchangeably
- ▶ One “mill” is one dollar of taxes per \$1,000 dollars of assessed value

Budget Request ÷ Taxable Value = Tax Rate (Levy)

$$\$1 \text{ million} \div \$70 \text{ million} = .014286$$

Multiply that by 1000 and you get the Mill Levy

$$.014286 \times 1000 = 14.286$$

Calculation of Levies

Levies are not set by the governing board

- ▶ Budgets are set by the governing board
- ▶ Taxable value is set by the assessor and the taxable factor
- ▶ Levies are the mathematical result

Levies change in response to changes in taxable value and budgets

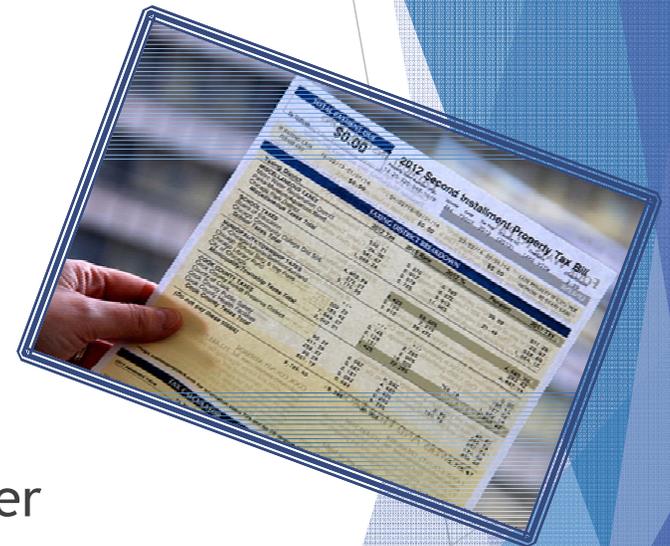
- ▶ If taxable value increases  and budget stays the same  then Levies 
- ▶ If taxable value stays the same  and budget increases  then Levies 

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Taxes

- ▶ Taxes are paid in the year following the assessment
- ▶ Tax bills are mailed by January 1st
 - ▶ 1st half not late until the end of April
 - ▶ 2nd half not late until the end of October
- ▶ Property accrues taxes - not people
 - ▶ Tax bills are mailed to the most current owner



Tax Exemptions

- ▶ All real property is taxable, unless exempted by state statute
- ▶ Exemption Process
 - ▶ Apply to the Director of Equalization by November 1st
 - ▶ All exempt applications are published in the newspaper
 - ▶ County Board of Equalization approves or denies all exemptions from property tax
- ▶ Requirements
 - ▶ Must be an exempt entity as defined by state statute
 - ▶ Must use the property for the exempt purpose



Tax Exemptions

Any tax exemption or reduction in assessment creates a tax shift

- ▶ Local governments set budget requests on the need for government services
- ▶ Valuation reductions or exemptions for a few increase the tax levy on all
 - ▶ Local Government still needs the same amount of money...which shifts the burden onto the remaining taxpayers

Most Common Exemptions

Exemptions by Statute

- ▶ Church
- ▶ Charity
- ▶ Benevolent
- ▶ School
- ▶ Hospital
- ▶ Congregate Housing



Property Tax Reduction Programs

- ▶ Disabled Veteran
- ▶ Paraplegic
- ▶ Elderly Freeze
- ▶ \$10,000 Ag Building
- ▶ Historical Moratorium
- ▶ Discretionary Formula

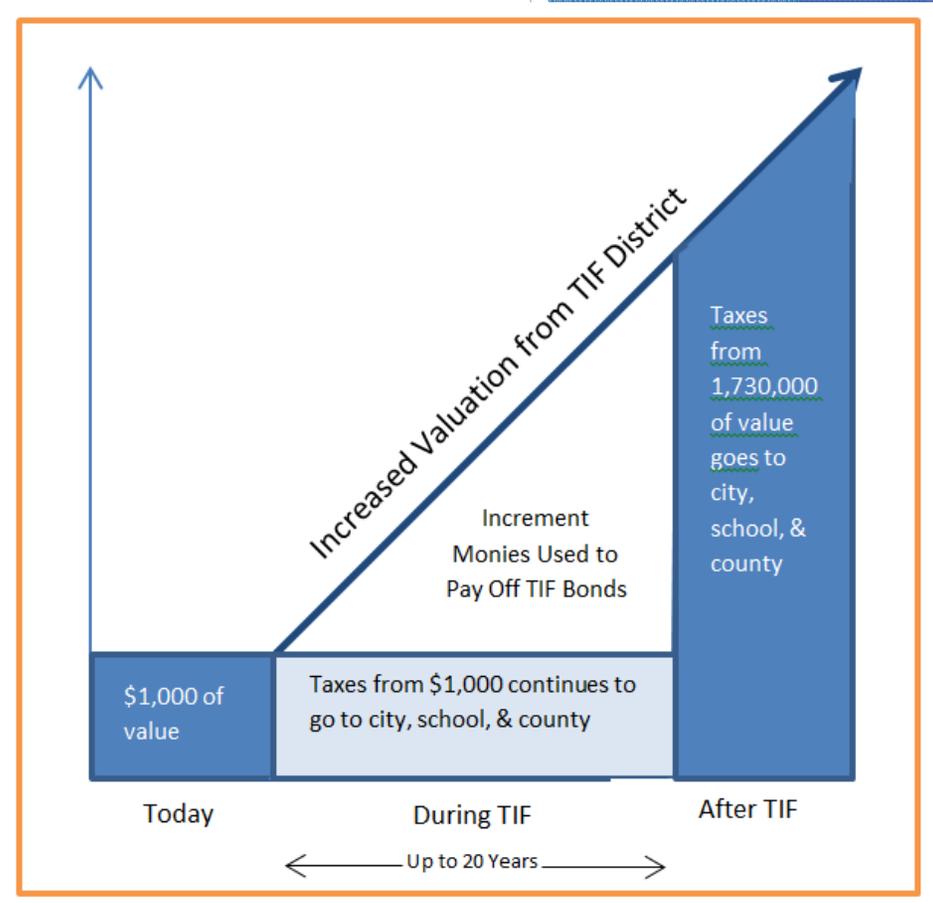
Tax Increment Financing (TIF)

- ▶ Used as an incentive to develop in a blighted area or for economic development
- ▶ Finances development of infrastructure- sewer, water, street, etc.
- ▶ Taxes on growth in the TIF district go to pay the development costs
 - ▶ Base taxable value is set before development happens
 - ▶ Taxable value increases as construction happens in the district
 - ▶ Taxes from the growth, above the base, are diverted to the developer

Let's say that today the property is bare land and has a base value of \$1,000. It is expected to have a value of \$1,730,000 after completion of the project.

During the life of the TIF, the county, city, and schools will continue to receive taxes based upon the initial \$1,000 base value. The taxes that are created due to the increased value of the property go toward payment of the bonds. Schools will receive taxes on the increased value from an increased levy or from state aid.

Once the TIF is paid off, the property taxes from the entire \$1,730,000 of value will be divided up among the taxing entities.



Agricultural Land Classification Criteria

- ▶ Principal use is devoted to agricultural production for intended profit, plus 1 of the following criteria:
 - ▶ 1. In 3 of previous 5 years, agricultural income of at least 10% of the taxable value of land, or at least \$2,500 of the owner's income is derived from agricultural
 - ▶ 2. Minimum of 40 acres

Agricultural Land Assessment

- ▶ Ag land is not assessed at market value
 - ▶ Sales are not used
- ▶ Ag land is assessed based upon its productivity
- ▶ State law specifies a productivity formula
 - ▶ Value is based upon typical yields and prices in each county
 - ▶ An olympic average of annual income is used
 - ▶ A value for each of crop and pasture is provided to each county
 - ▶ Values are applied to all parcels and adjusted for soil quality

Pennington County Assessment

▶ 2019 Assessment- \$10.9 Billion

- ▶ Change From Last Year +\$564 Million or 5.4%
 - ▶ New Growth +\$283 Million or 2.7%
 - ▶ Reappraisal +\$281 Million or 2.7%

	<u>Last Year</u>	<u>This Year</u>
▶ Median Level of Assessment	96.0%	≈96%
▶ Taxable Factor	88.5%	≈88.5%
▶ Estimated Change in Local Real Estate Market		+5%