
Memorandum to Legislature

APPENDIX A

Note: The Legislative Auditor's Office sent the following memorandum to the Minnesota Legislature along with copies of this best practices review.

MEMORANDUM

Date: May 1996

To: Members
Legislative Audit Commission
House Taxes Committee
Senate Taxes and Tax Laws Committee

From: Legislative Auditor's Office

Subj: *Minnesota's System of Property Assessments: Structure and Appeals*
Items for Legislative Consideration

As you may know, we recently released a "best practices" review of *Minnesota's Property Assessment System: Structure and Appeals*. The review identified numerous good ideas for improving the way local governments structure their property assessment activities and conduct appeals of assessments. The review was mainly addressed to local government officials, but in conducting our review we noted several issues that deserve attention from the Legislature.

This memo outlines three issues: (1) the small yet troubling number of local governments that do not fulfill their statutory obligations as boards of review; (2) the lack of minimum guidelines in computerization of assessment work; and (3) the difficulty some assessors face estimating values of income-producing properties. We discuss each of these issues below.

LOCAL GOVERNMENTS THAT DO NOT HAVE ACTIVE BOARDS OF REVIEW

Local boards of review are integral to Minnesota's system of appealing property assessments, and most perform their function well. But some boards are essentially passive and rely on assessors to make key decisions. Others do not meet because they fail to garner a quorum of members, and a few are not even aware they constitute a board of review.

In areas where local governments place a low priority on their board of review function, property owners might be better served by local governments delegating their board of review authority elsewhere. The state has given local jurisdictions in one county, Dakota County, the option of transferring the city or township board of review authority to the county board of equalization. We think that:

- **The Legislature should consider allowing Minnesota cities and townships with inactive boards of review to delegate their powers and duties as boards of review to the county board of equalization or a local board authorized to represent multiple cities or townships.**

LACK OF MINIMUM GUIDELINES FOR COMPUTERIZATION

Many local jurisdictions participate in cooperative computer arrangements, which allow them to enjoy the advantages of computerization without each community assuming the full expense of designing information systems and programming and updating computer software. But we have some concerns about the development of computerized systems for assessment. Each computer consortium, and each jurisdiction with its own computer system, is developing a separate computer system to accomplish basically the same tasks. There is little interface among the different systems, and no guidelines exist to help assessors' offices decide what components would be useful for an effective system. This lack of minimum guidelines may increase the difficulty of providing high quality assessments that are uniform and equalized around the state.

For example, county assessors supply information needed for the Department of Revenue's annual assessment/sales ratio studies. They also process certificates of real estate value, verify and screen property sales, and participate in equalization discussions and actions through the state board of equalization. Yet the way county assessors perform these tasks and transmit the information to the state varies considerably, adding time and inefficiencies to the process.¹

Second, the "field cards" used by assessors to record property information vary from jurisdiction to jurisdiction, and the type and amount of data collected on properties also varies. To some degree this is necessary because of different property types and individual needs of assessment districts. Although we are not advocating the use of one field card format to meet all needs, a set of standard data elements on field cards would make it easier to collect comparable data that could be used for planning purposes, in community development, and for other governmental functions.

Finally, programs for "computer-aided assessments" and "computer-assisted mass appraisal" also vary. Variation is necessary because local needs differ and appraisal programs have to be designed to respond to these needs; a single computer-aided assessment program for all assessment jurisdictions across the state is not feasible. However, jurisdictions beginning or upgrading such programs have no guidelines on what components are essential in a system or what features have demonstrated optimal usefulness and effectiveness. Each jurisdiction currently has to rely on its own experience and on vendors to decide how to develop its system. Because software programs for these systems around the state do not have the same capabilities and assessors use them in varying degrees, it is unclear how these various systems affect the uniformity of the assessment from a statewide perspective.

No one in Minnesota has comprehensively examined whether minimum operating capabilities or opportunities for linking systems would better meet the common assessment objectives in a more cost-effective manner. Nor has anyone determined what features computer systems should have for assessors' use. We conclude that:

- **The Legislature should establish a task force to evaluate the need for minimum statewide guidelines for computer systems used by assessors.**

¹ A report on the sales ratio study prepared for the Minnesota Department of Revenue recommended actions to improve computerized or electronic transmission of sales ratio data from counties to the state. See Almy, Glodmans, and Jacobs, *Final Report: Review of Sales Ratio Study Procedures* (St. Paul: April 20, 1995), 40-44.

The task force should include assessors who use the computer systems and computer analysts. It should consider whether standards or guidelines would be beneficial, analyze the costs of implementing such standards in light of computer system expenditures already made, determine how and when such standards or guidelines would be applied, and decide whether they would prove more economical and effective to the state and to county and local assessors.

The task force should also consider how to finance any standards that are determined to be beneficial and an appropriate timeline for their implementation. Finally, it should consider the role that independent, local assessors would play in a system more heavily dependent on computer-assisted appraisal.

DIFFICULTY IN ASSESSING INCOME-PRODUCING PROPERTIES

Estimating values for income-producing property, such as apartment buildings or commercial property, presents certain challenges not commonly found with some other classifications of property. The relative scarcity of sales of income-producing properties, particularly in rural Minnesota, means that assessors may not have sufficient information to assist in estimating the values of those kinds of properties. Previous attempts by the counties to collect such data resulted in mixed success. One problem was a lack of resources for gathering and maintaining data. Also, owners of income-producing properties are generally reluctant to provide income and expense data for fear of divulging proprietary information that could conceivably benefit their competitors. State statutes protect as private or nonpublic data certain information concerning income properties.²

Some assessors claim that the lack of access to income and expense data results in more cases being appealed to tax court. When a case reaches tax court, state law requires petitioners to submit income and expense data to the assessor.³ However, some assessors believe that if data were available earlier, some of the time and expense of tax court might be avoided. We conclude that:

- **The Legislature should consider a range of actions to improve the process of estimating values for income-producing properties. The costs and benefits of each action to both assessors and property owners should also be considered.**

The range of possible actions could include some combination of the following: (1) creating a statewide database of significant pending court cases to give assessors timely access to their colleagues' relevant experiences and ideas; (2) having the Department of Revenue maintain regionwide databases of income and expense data accessible by assessors; (3) developing pilot projects on different methods for handling tax court cases on lower-value, income-producing properties; (4) requiring petitioners to report income and expense data upon filing the petition when they bypass local boards of review and equalization; and (5) investigating alternatives to the "income approach" in instances when data needed to estimate values on income-producing property are unavailable.⁴

² *Minn. Stat.* §13.51, subd. 2. This protection applies to detailed income and expense figures for the current year plus the previous three years, average vacancy factors for the previous three years, verified net rentable areas, anticipated income and expenses for the current year, projected vacancy factor for the current year, and lease information.

³ *Minn. Stat.* §278.05, subd. 6. The statute requires the petitioner to supply income and expense figures, verified net rentable areas, and anticipated income and expenses for income-producing property within 60 days after filing a petition. Without the information, the court could dismiss the petition unless the information was not provided due to the unavailability of the evidence at that time.

⁴ In the "income approach" to estimating values, assessors convert the income stream of a building into an estimate of its value.