
Property Assessments: Structure and Appeals

A Best Practices Review

EXECUTIVE SUMMARY

Property taxes generate the bulk of local governments' revenue in Minnesota. Accurate and uniform estimates of property value are key to a workable property tax system. Whether the property tax burden is distributed as intended by the Legislature — with owners of some types of property, such as commercial buildings, paying heavier shares than owners of other types, such as homes — depends a great deal on the quality of the assessment of property value.

This is a review of two components of local government property assessments in Minnesota: the organizational structure of the assessment system and the process for appealing property value estimates. The review highlights some of the practices related to organizational structure and appeals processes that counties, cities, and townships have found to be effective or efficient. We hope that the information will be useful to local governments interested in measures related to effectively structured assessment systems and well-managed appeals processes.

THE PROPERTY ASSESSMENT SYSTEM

In Minnesota, counties and cities conduct property assessments within a system designed by the Legislature.

*This
review
focuses
on two
aspects of
the
assessment
system:
organiza-
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structure
and
appeals.*

By law, Minnesota assessors must estimate land and buildings at their market value, that is, the selling price likely to be obtained during an arm's length transaction in an open and competitive market. Assessors estimate property values as of January 2 each year. These values comprise the tax base that determines who will pay what share of property taxes for local governments' budgets in the following year.

The organizational structure of assessment services — who is responsible for viewing and assessing property — varies somewhat around the state. Similarly, the process for property owners to appeal the estimated value of their property can differ from county to county and within counties.

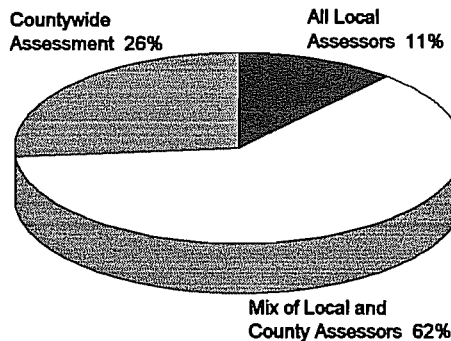
Organizational Structure of Property Assessment

Each of Minnesota's 87 counties has an appointed county assessor, although some counties share assessors. In 1994, 23 counties had a "county-wide assessment system" in which the county assessor offices assessed the value of all property within their boundaries. County assessors in 10 other counties did not view or inspect properties directly, but instead oversaw assessments produced by local assessors working for cities or townships. In 54 other counties, the

Minnesota
Office of the
Legislative Auditor

May 1996

Counties Grouped by Structure of Assessment Systems, 1994



Note: Does not sum to 100 percent due to rounding error.

Source: Legislative Auditor's Office Survey of Assessors, 1995.

county assessor's office assessed some parcels and local assessors assessed others.

A county assessor provided assessment services for most Minnesota cities and townships in 1994. However, about 43 percent of cities and townships contracted with local assessors or employed their own assessing staff. County assessors are responsible for reviewing the assessments made by local assessors and ensuring compliance with assessment laws. Minneapolis, Duluth, and St. Cloud each appoints a city assessor with the powers and duties of a county assessor.

Property Assessment Appeals Process

During every spring, Minnesota property owners can contest the property values estimated by their assessor. Any time after they receive their property valuation notices, property owners may contact their assessors' office to question their assessments. In addition, state statutes set up two principal routes for appeals beyond the assessor: (1) appealing to a local board of review, a county board of equalization, and, finally, Minnesota Tax Court; or (2) appealing directly to the Minnesota Tax Court.

Taking the first route of appeal, property owners may appear before their local board of review or equalization, most often comprised of the mayor and city council or township board, but sometimes

comprised of a special appointed board. Local boards of review or equalization have authority to determine whether the assessor has properly valued all parcels of taxable property in the assessment district.

Dissatisfied property owners may appear before the county board of equalization, usually made up of county commissioners and the county auditor, but sometimes comprised of a special appointed board. The county board of equalization is authorized to compare property assessments and equalize them so that each parcel is listed at its market value.

Property owners who are still dissatisfied may then file a petition in Minnesota Tax Court, which is a circuit court that meets in judicial district courtrooms across the state. Minnesota Tax Court has two divisions: the regular division and the small claims division. In the court's regular division, property owners pay a \$122 fee when they file and

What is this best practices review?

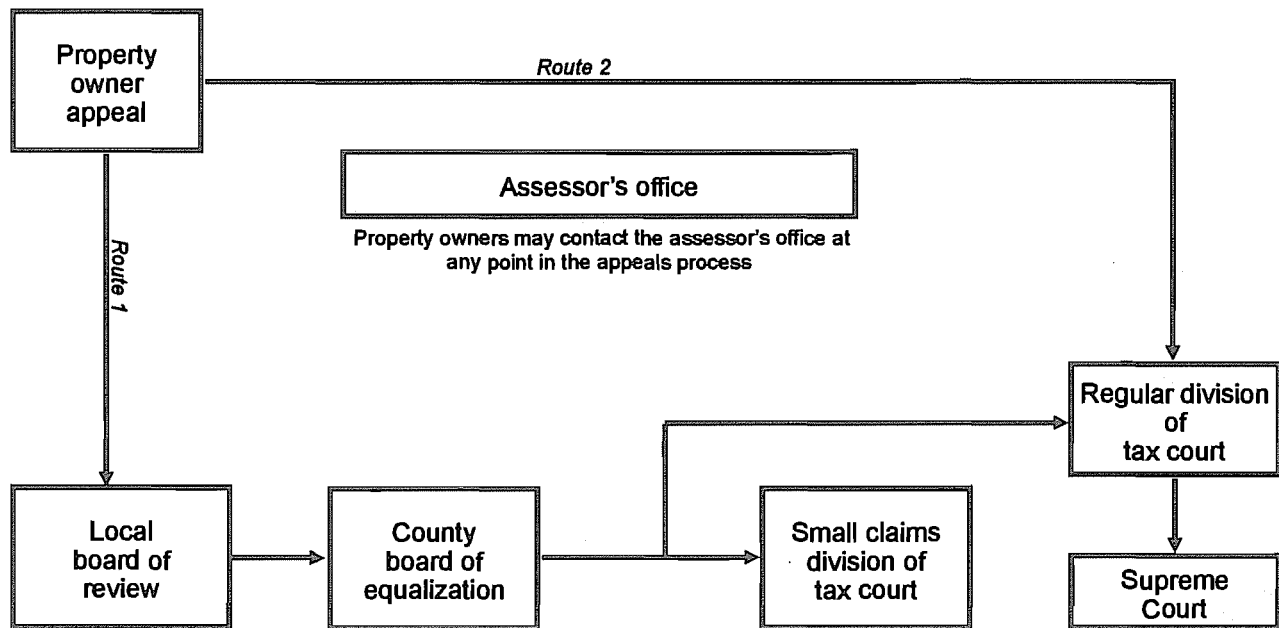
This report identifies some of the effective and efficient practices related to the organizational structure of assessment services and the process for appealing assessments in Minnesota. It is based on a statewide study of the current practices of assessors and boards of review or equalization in counties, cities, and townships.

The purpose of this report is to catalog effective methods, demonstrate the conditions under which they may be successful, and encourage their adoption wherever appropriate throughout the state. Unlike a regular audit or evaluation, this report does not focus on deficiencies, but highlights successful practices.

We hope that Minnesota's local governments will actively use this report to examine their own practices and consider other ideas that contribute to estimating property uniformly and at market value and produce fair, understandable appeals processes.

This best practices review is part of a program created by the Minnesota Legislature in 1994 to identify best practices in local government service delivery.

The Property Assessment Appeals Process



Source: Office of the Legislative Auditor.

are often represented by an attorney. Appeals of non-homestead properties with values of at least \$100,000 must be heard in the regular division. In the less formal small claims division individuals pay a \$25 fee and typically represent themselves.

The second major route of appeal involves going directly to Minnesota Tax Court. Property owners may bypass their boards of review and equalization and file directly in the regular division of tax court. The small claims division of tax court is not an option in this route. Using either route of appeal, owners may file a tax court petition until March 31 of the year taxes are due.

Tax Abatement Process

Minnesota statutes allow counties to return taxes already paid by property owners when an error or injustice resulted in an overpayment. Tax abatements can reduce the estimated market value, reduce the tax, or change a property's classification. Taxpayers may file abatement requests for the current tax

year or, in the case of clerical errors or when the taxpayer fails to file due to hardship, for the prior two tax years. Tax abatements are not a part of the formal appeals process that ends when boards of equalization adjourn in June, but they represent one method for reducing estimates of value under special circumstances.

GOALS AND ACTIONS THAT DEFINE BEST PRACTICES

To help identify best practices, we outlined the goals of effective assessment systems and determined what actions would help fulfill these goals. "Best practices" are the effective methods and techniques used by local governments to meet their goals. However, not every practice listed will apply to every assessment jurisdiction. Local governments will have to come to their own conclusion about what practices make sense for them given their individual needs and circumstances.

First we discuss goals, actions, and practices related to the organizational structure of assessment systems. Then we discuss goals, actions, and practices pertaining to appeals processes.

Effective Organizational Structures of Assessment Systems

We identified two fundamental goals for effectively structured assessment systems:

- The assessment system should estimate property values at market value in a cost-effective manner.
- The assessment system should estimate property values uniformly in a cost-effective manner.

The first goal means that assessors' estimates should be close to market value, as measured by the selling prices of properties on the open market. The second goal intends that assessors' individual estimates should be equitable. Both goals recognize the limitations of time, personnel, and financial resources.

We also identified two important actions that can help assessment jurisdictions reach the goals. While these actions and the practices related to them are essential, they do not cover the full range of actions that mark effective organizational structures.

Two Actions for Effectively Structured Assessment Systems

- Maintain adequate personnel and equipment to produce assessments accurately and efficiently
- Communicate understandable assessment information to property owners and others interested in the assessment

1. Maintain Adequate Personnel and Equipment to Produce Assessments Accurately and Efficiently

The first action means assessors need sufficient personnel to estimate market values accurately and efficiently. Further, to perform successfully, assessors need basic equipment, such as maps and computers, and access to ongoing training. Without these necessities, assessors' offices cannot expect to produce high quality property valuations efficiently. We describe below some of the best practices related to this action.

• Manage Effective Staff-to-Parcel Ratios

According to appraisal industry standards, a successful mass appraisal program needs at least one appraiser for every 5,000 parcels. Maintaining this minimum personnel ratio will help ensure that the office can adequately complete its appraisal, mapping, drafting, data processing, and administrative responsibilities. Most Minnesota assessment jurisdictions meet this standard.

• Adjust All Parcels' Value Annually

Ideally, assessors should update the values of parcels in their jurisdiction each year to capture ongoing changes in the market. In most Minnesota counties and cities the assessors adjust the value of all parcels annually based on property sales, costs, and other market conditions.

• Conduct a High Percentage of Interior Inspections

Interior inspections allow assessors to verify or update existing data related to the condition, amenities, and other structural features not apparent from the outside of properties. These data permit more precise analyses for estimating values and matching comparable properties. High percentages of interior in-

spections contribute to acceptable levels of assessment.

- **Have a Complete Set of Maps**

Because assessors have to locate and inventory all property in their jurisdiction, a complete set of maps is essential. Maps are necessary for locating properties, determining parcel size and shape, and analyzing geographic features that can affect value, among other things.

- **Use Computers Fully**

Computers dramatically improve the efficiency and accuracy of work required in assessing property values. They expand the range of analyses assessors can readily perform and provide more accurate, current data. Assessors use computers to perform routine calculations and process records but some also use computers to assist in estimating property values. Others use computerized mapping to keep maps as current as possible and help highlight properties that require adjustments to value.

Coon Rapids

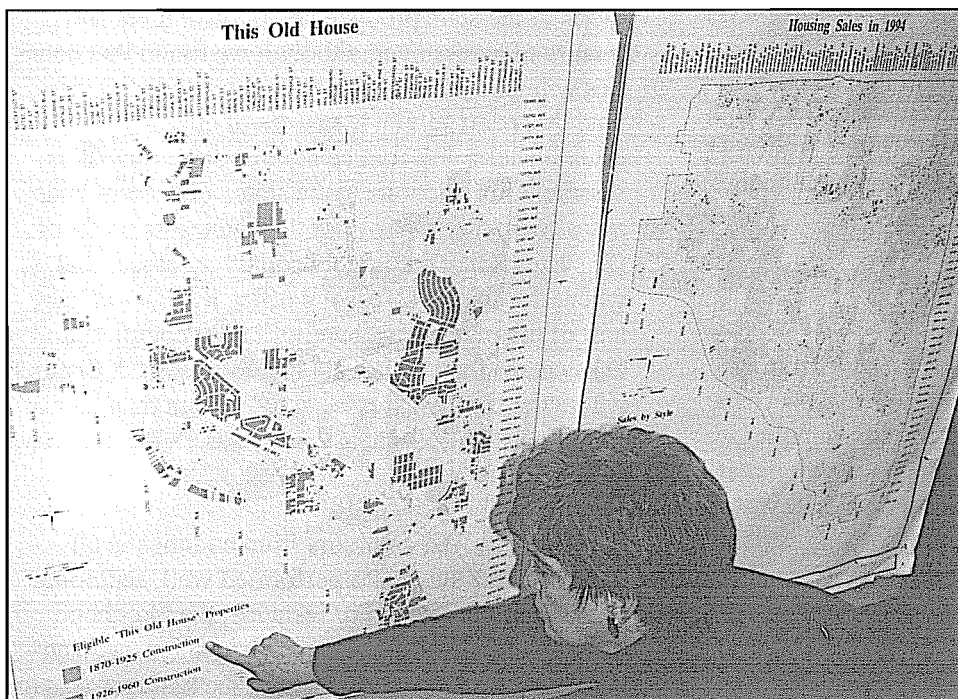
The *Coon Rapids City Assessor's Office* uses a geographic information system (GIS) to view its neighborhoods' land values parcel by parcel on color-coded maps. Produced electronically by blending computerized maps and other land-based data, GIS maps are easily updated to reflect market changes.

The maps show assessors whether values are consistent, allowing assessors to quickly yet comprehensively detect and correct equalization problems. The maps show whether all properties affected by certain land uses, such as railroads, are treated equally.

Coon Rapids' assessors have also used GIS to locate properties eligible for value exemptions associated with the "This Old House" program. By mapping the date of residential construction, assessors see where the areas affected by the law lie.

- **Provide Adequate Staff Training and Office Equipment**

Ongoing assessor training is considered essential for effective assessments, given the complexity of the job. Assessors have to be well versed in land economics, appraisal techniques, market analysis, construction materials and types, and income and expense analysis. Certain equipment in addition to computers and maps is also essential, such as field appraisal equipment and cost manuals.



Coon Rapids' City Assessor's Office uses maps generated by a geographic information system.

2. Communicate Understandable Assessment Information to Property Owners and Others Interested in the Assessment

Effective communication is a second important action to reach the goals of estimating property uniformly and at market value. Good communication with property owners is especially needed when assessors notify owners of estimated market values and conduct their field work. We describe below some of the best practices related to this action.

- **Provide Complete and Clear Property Valuation Notices**

The notice of property value is typically the first, and sometimes the only, communication that property owners receive from assessors, making it especially important that the information is complete and stated clearly. Some assessors' offices supplement the valuation notice with brochures or pamphlets to help explain property assessments.

- **Notify Property Owners in Advance**

Before visiting properties in the field, some assessors try to alert property owners about upcoming inspections. Advance notification before inspecting properties contributes to good public relations and may make property owners more cooperative and receptive to the inspection.

- **Prepare for Field Visits**

Preparing for property visits means planning ahead and taking steps to help ensure successful inspections. These include wearing picture identification, establishing a greeting that includes a proper introduction and statement of the visit's purpose, and preparing materials for properties where the owners are unavailable.

Duluth

As a means of improving public relations, the *Duluth City Assessor's Office* sends notification letters to homeowners whose homes are to be reappraised, alerting them in advance of the appraisers' visit.

Appraisers sign and send letters to homeowners about two weeks prior to visiting the neighborhood. The letters make residents aware of appraisers' pending inspections, describe the importance of the inspections for consistent and accurate appraisals, and suggest that owners who will not be home schedule an appointment at their convenience.

The notification letters benefit residents and appraisers. Residents appreciate knowing when the appraisers are working in their neighborhood. Homeowners tend to be more receptive to appraisers' inspections.

Effectiveness by Structure of Assessment System

Generally, assessors in counties from different regions of the state produce an effective level and quality of assessment, although we found that counties with countywide assessment tended to dominate others on certain measures of efficiency and effectiveness. We looked at three structures of assessment jurisdictions in the state: (1) countywide assessment, accounting for 23 Minnesota counties; (2) systems that are largely county assessed, that is, where the county assessor's office assesses at least half of the parcels, accounting for 26 counties; and (3) systems that are largely locally assessed, that is, where the county assessor assesses less than half of the parcels while local assessors assess the majority, with 37 counties.

In many respects, assessors from counties in all three of these structures performed well, according to our data for 1994. For instance, the likelihood that assessors adjusted all parcels' values on an annual basis was the same whether the assessor was in

a county with countywide assessment, a county largely county assessed, or a county largely locally assessed. When comparing effective assessments on residential property, counties from all three structures were likely to produce a good level of assessment, as defined by assessment/sales ratios.

However, on certain measures counties with countywide assessment systems gain advantages related to their structure. For example, the number of assessors in these counties tended to be more efficient than elsewhere. Measures in which countywide assessment systems tended to dominate were typically less common throughout the state, such as use of computer-assisted mass appraisal (CAMA). About 61 percent of assessors in counties with countywide assessment reported using CAMA in 1994, compared to about 38 percent of assessors in other counties.

Because we studied only some of the actions in an effective organizational structure, we cannot conclude that a given structure is the single or even a primary cause of efficiency and effectiveness. We did not examine with enough detail the various techniques assessors used to estimate value, or whether these techniques varied by type of structure, to reach such a conclusion.

We also measured cost effectiveness by counties in these three organizational categories. To do this, we compared total costs per parcel for counties with effective assessments, including both county assessor's costs and estimated local assessors' costs. We defined as "effective" those counties where median sales ratios for residential, agricultural, commercial industrial, and seasonal-recreational residential properties were between 90 and 105 percent in 1994. We found little variation in median costs per parcel among effective assessors' offices in counties with countywide assessment when compared to those in counties largely county assessed or those largely assessed by local assessors.

Effective Appeals Processes

We outlined two goals and five actions of effective processes for property assessment appeals. The goals and actions provide a framework for identify-

ing best practices — those practices that could save resources or improve effectiveness. The goals are:

- The process should offer a fair and objective forum to appeal property assessments.
- The process should be understandable, easy to use, and effective for all participants.

The first goal implies that a property owner with an assessment dispute should have a viable opportunity to be heard and understood and that all those with similar situations should receive equitable treatment without caprice. The second goal underlines the importance of an appeals process that meets the conflicting needs of three parties: property owners who may not be familiar with property assessment and appeals, assessors whose job it is to complete property value estimates, and board members who sit in judgment of assessors' estimates of value.

We identified five actions that we believe help assessment offices reach these goals. By taking these actions, assessment jurisdictions are more likely to achieve fair and objective appeals processes that are easily understood and effective for participants. Although we believe these five actions are instru-

Five Actions for Effective Appeals Processes

- Foster knowledge about property values and assessment among members of boards of review and equalization
- Resolve property owners' questions objectively, fairly, and efficiently
- Communicate understandable appeals information to property owners
- Provide flexibility in the appeals process to accommodate varying schedules
- Adopt clear tax abatement policies

mental to effective appeals processes, they are not exhaustive.

1. Foster Knowledge About Property Values and Assessment Among Members of Boards of Review and Equalization

Since most individuals serving on boards of review and equalization are not necessarily trained in the field of appraisal, advance preparation helps. Informed board members are better qualified to make educated appeals decisions. We describe below some of the best practices related to this action.

- **Provide Relevant Assessment and Sales Information to the Board**

Many assessors' offices provide information to prepare board members for the board meeting. Pertinent information often includes a review of the board's duties, a discussion of the assessment process, descriptions of value changes and market trends by property type over the past year, a review of the appeals process, recent changes in assessment statutes, and typical questions to expect.

- **As a Board Member, Prepare for the Meeting**

Training courses are available specifically to acquaint elected officials with the assessment process and duties of the boards. Board members may also prepare by familiarizing themselves with the board's process, consulting with the assessor, and reviewing data on market trends.

- **Appoint Members with Relevant Experience to Boards**

The composition of some boards of review and equalization includes members with real estate or appraisal experience. This type of experience helps board members make more

informed decisions and can increase their comfort level with the appeals process.

Blaine

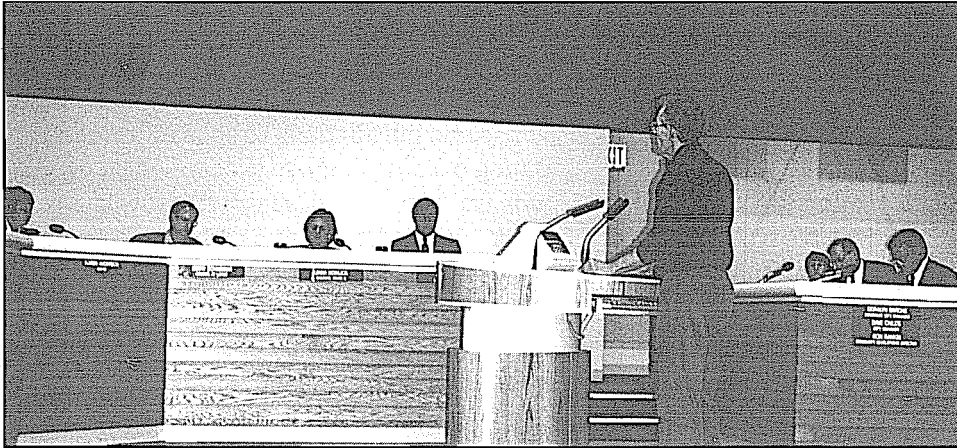
The city of *Blaine* appoints a special board of review with five members, three of whom must be either appraisers or real estate agents.

One of the reasons Blaine initiated the appointed board was to bring to assessment issues those persons who are knowledgeable about buildings and land, their values, and real estate markets. The appointed board has professional experience in residential and commercial building values, understands the issues involved with determining property and land values, and is familiar with local markets.

To connect the work of the appointed board to the elected council members, and to involve council members with assessment issues at the policy level, Blaine's ordinance also established an annual workshop. During the workshop, city council members and board appointees learn about current assessment trends and changes in property tax laws.

2. Resolve Property Owners' Questions Objectively, Fairly, and Efficiently

Assessors receive numerous inquiries from property owners, particularly in the spring following the mailing of valuation notices. To the extent that assessors' offices answer some of the tens of thousands of questions before boards of review or equalization meet, property owners, board members, and assessors themselves can benefit. Some of the practices allowing assessors to resolve inquiries early are actively encouraging property owners to contact the assessors' offices and holding "open book" meetings.



A property owner speaks before a board of review.

- **Encourage Property Owners to Contact Assessors' Offices**

By encouraging property owners to contact the assessor's office prior to attending the board of review meeting, assessors have a greater opportunity to resolve questions early. Some assessors use the real estate valuation notice to suggest contacting the office as a first step when owners dispute their assessments and using the board of review only after discussion with an assessor.

- **Hold Open Book Meetings**

Some assessors' offices hold informal "open book" meetings during the evenings or weekends to answer property owners' questions. The meetings provide forums for property owners to inquire about their assessment without lodging a formal appeal.

3. Communicate Understandable Appeals Information to Property Owners

Effective communications help increase public awareness of the assessment and appeals processes and contribute to a better understanding of the property tax system in general.

Because most property owners do not have real estate or appraisal backgrounds, they need appeals in-

formation written in lay persons' terms and provided in easily read formats. We discuss below some of the practices related to understandable appeals information below.

- **Provide Helpful and Clear Property Valuation Notices**

Although state statutes require certain information on the property valuation notice, many assessors' offices use the notices to provide additional information to assist property owners who have questions about their assessment. For instance, many notices include information on steps property owners must take to appeal their assessment.

Dakota County

The *Dakota County Assessor's Office* conducts "open book" meetings each spring prior to meetings of local boards of review. The meetings provide a forum for property owners to meet with appraisers on an informal basis to review information on their property values and receive answers to their questions.

The open book meetings occur over a series of days. Taxpayers may come in any time between 9:00 a.m. and 7:30 p.m. to speak one-on-one with appraisal staff. In this way the assessor's office resolves questions and minimizes the number of owners who appeal their assessments before a local board of review or county board of equalization.

Breckenridge

To help the board of review process run as smoothly as possible, city officials in *Breckenridge* stress open communication and education with their residents. After citizens receive their valuation notices, the city begins an information campaign to educate citizens about the property valuation process.

Using the local newspaper and public-service announcements on cable television, the city advertises names and telephone numbers of the appropriate people to call when residents have valuation questions. In addition, the mayor uses a live radio broadcast to describe the board of review process.

The city council meets to acquaint newly elected members with board responsibilities, the format of the meeting, how members can prepare for it, and the role of the assessor.

- **Develop Additional Information for Property Owners Who Want to Appeal**

Other communications beyond the valuation notice are important year round but particularly during the appeals process. Good information reduces the mystery and increases owners' awareness of the assessment and appeals processes. These communications can also improve public relations.

4. Provide Flexibility in Appeals Process to Accommodate Varying Schedules

Although state statutes prescribe the dates within which boards of review and equalization meet, assessors and boards have leeway in arranging the time and place of the meetings. Some assessment jurisdictions use practices that provide additional flexibility in the appeals process for people with work and family commitments during the day or time and distance constraints.

- **Hold Meetings at Convenient Times**

To make the appeals process more convenient, some jurisdictions hold board meetings during evening hours to accommodate people with traditional work schedules or who live or work outside the county in which the property is located. Open book meetings can also add flexibility.

- **Schedule Appointments**

Appointments to appear at board meetings can benefit both boards and appellants. When assessors know who is appearing, they can provide background information on the property to aid the board's deliberations. Appellants avoid waiting through other testimony.

Cass County

The assessor's office in *Cass County* holds a series of Saturday meetings each year to provide property owners an opportunity to talk informally with assessors about their property assessments.

The principal reason for initiating the meetings was to resolve property owners' questions early and lessen the burden on local boards of review. Each area the county reappraises during a given year is the site for a Saturday meeting.

Taxpayers have voiced approval of the Saturday meetings because they can receive answers to their assessment questions in a comfortable, informal setting. Holding Saturday meetings prior to local boards of review has helped reduce the number of local board appeals 40 percent from the preceding four-year average.

5. Adopt Clear Tax Abatement Policies

Counties grant reductions in estimated market value and tax abatements to taxpayers who paid taxes er-

roniously or unjustly. Tax abatement policies help counties control unnecessary or unfounded abatement requests.

- **Write Explicit Abatement Policies and Define "Hardship"**

Explicit written tax abatement policies give counties a framework to treat all abatement requests uniformly. For counties that consider abatement requests for the two prior tax years, defining hardship sets ground rules for deciding which property owners are eligible.

Beltrami County

In 1994, Beltrami County adopted a structured, well-defined abatement policy. The assessor's office wanted both taxpayers and county officials to have a clear understanding of what taxes the county would and would not abate.

Because of the office's work in verifying homeowners' homestead status each year, the abatement policy limits the time for considering homestead abatements to the year taxes are due. The county also considers other types of requests for the prior tax year when the property is over valued or improperly classified and the property owner provides good reason for not having appealed to the boards of review or equalization.

Following this abatement policy gives staff definitive guidelines for determining what abatement requests qualify and benefits taxpayers because all abatement requests are judged by the same standards.

dedicated assessors and individuals on boards of review and equalization trying new methods and working to improve their services. Designing effective processes for appealing assessments typically requires planning and taking steps far in advance of the formal appeals process designated in statutes. Some assessment jurisdictions have aggressively worked to increase the efficiency of their process while recognizing the needs of property owners who may be unfamiliar with assessing and real estate markets. Although assessment services are structured differently around Minnesota, the type of structure does not seem to inhibit assessors' ability to produce quality assessments. Assessors have had to adapt to circumstances and needs in their own jurisdictions. Yet many of the ideas and practices they use are suitable for others as well.

In addition to the effective practices and methods we observed during this review, we noted three issues that deserve attention from the Legislature: (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 may face estimating values of income-producing properties.

To address these issues we think 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.
- Establish a task force to evaluate the need for minimum statewide guidelines for computer systems used by assessors.
- 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.

CONCLUSION

Best practices in assessment jurisdictions range from measures that are widespread to those less commonly found. During the review, we observed