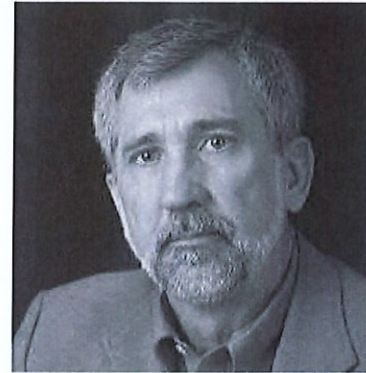


Property Tax Assessment and Market Value

The mission statement of the Iowa State Association of Assessors (ISAA), of which all assessors within the state are members, is “to promote excellence in property valuation by providing fair and equitable assessments for property owners and local governments in the State of Iowa.” Assessors are professionals whose positions were established in 1948 separate and autonomous from county government so as to reduce political influence on the position. The conference board serves as the governing board and taxing authority for the assessors office. ISAA is an associate member of the International Association of Assessing Officers (IAAO). As a result of this affiliation, assessors are required to follow the Uniform Standards of Professional Practice (USPAP) which helps define ethics and technical standards for appraisal practice. These organizations, among others, are the primary organizations that provide educational courses, seminars, and training conferences for assessors. Technical and theoretical training provided by professional organizations, along with guidance from the Iowa Department of Revenue (DOR), is used by assessors for their continuing education requirements and assessment practices. DOR supports assessors in regard to the statutory duties required of assessment offices and assessors within Iowa.



Raymond Armel
Chickasaw County Assessor
r.armel@chickasawcounty.iowa.gov

The assessor is charged with numerous statutory duties. Among many, they include the valuation and classification of all real property. The assessment or valuation processes include the discovery, identification, classifications, value definitions, and various appraisal approaches for real property. Iowa Code and the Iowa Administrative Rules establish many, if not all, of the requirements that assessors must meet. These assessment practices and guidelines performed by assessors are overseen by DOR through a process called equalization.

Equalization occurs every odd numbered assessment year, which is also known as a reassessment year, effective January 1. All property is subject to revaluation based on market activity that has occurred since the prior reassessment date. For the January 1, 2023, assessment, the assessor and staff analyze and interpret market data, or sales of real property that have occurred in the prior year or years for all classes of property excluding agricultural. All classes of property have a market value standard while agricultural property has a use value standard. Market Value is defined in Iowa Code for assessment purposes as “the fair and reasonable exchange in the year in which the property is listed and valued between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and each being familiar with all the facts relating to the particular property.” Agricultural property is valued based on a five-year productivity basis. For the January 1, 2023, assessment, the five crop years of data include 2017 to 2021. Taxing bodies will not utilize the new value for budgeting until 2024 to 2025.

The assessor does not create value or assure taxing bodies have sufficient tax base for their needs. The assessor and staff interpret the market as it is, not what it could be or should be. They utilize many tools in the interpretation of the market including sales data, occupancy rates, vacancy rates, rental rates, construction costs, rate of new construction, and local realtor data, to name a few. Your local assessor does not actually calculate, bill, or collect taxes. They set values in accordance with Iowa law.

With all of the attention that has been given to the rising residential market over the past several years, it may be prudent to examine the data that assessors are reviewing and analyzing that are impacting this market.

In general, assessors utilize a market driven cost approach to value. The replacement cost new is established using a cost manual that is provided by DOR which is trended for time to reflect cost new as of the assessment date. The replacement cost is then reduced for losses in value due to physical depreciation, functional obsolescence, and

Property Tax Assessment and Market Value

economic obsolescence. Once the value for the structures or improvements is established, the improvement value is added to the land value for a total property value.

While it might appear that is all there is, the market data has to be applied to the individual properties within the assessing jurisdiction. The markets are then researched to determine if the resulting values are at the level required by law or if they require adjustments. As the Chickasaw County Assessor, I maintain a quarterly sales ratio analysis to monitor trends. **Keep in mind that the state law requires that we maintain an aggregate valuation by class of property based.** Chickasaw County sales ratio for all residential property was 99.08% in January 2021. It is, at the time of this article, now 78.75% for January 1, 2023. To reach the required aggregate assessed value by class, and thus arrive at the optimum 100% sales ratio, a 26.98% ($100 - 78.75 = 21.25 / 78.75$) increase in aggregate residential values would be required. Because the valuation requirement based on statute is an aggregate valuation and not all properties appreciate or depreciate at the same rate, individual property changes will vary in the amount of increase. Some may be greater and some may be less.

To see more data from the Chickasaw County quarterly sales ratio analysis, please visit the ISAC website at www.iowacounties.org/wp-content/uploads/2023/02/Ray-Armel-COUNTY-MAGAZINE-STATISTICS-INFO.pdf.

This same analysis is applied by urban or rural, by towns, and even into neighborhoods. The appraisal software used by the office provides us the ability to analyze sales by age, style, quality, and size, among others. Not all property changes value at the same rate. Some towns may be more desirable or grow at a different rate as others, urban versus rural, older versus newer homes, one story versus two story, larger versus smaller, older neighborhoods versus newer neighborhoods, etc. As assessors we also research the Iowa Association of Realtors web site for additional insight on sales, average sale prices, number of listings, days on market, inventory, etc.

From this information assessors are able to determine adjustments that get applied to the property values either as map factors, manual levels, or changes in depreciation schedules. Here in the Chickasaw County assessor's office, we found as an example, brick homes were not selling for any more than a frame home. Brick replacement costs are greater than frame construction and so we provided for an additional depreciation in brick homes. Two story homes versus one story homes were addressed in a similar manner. The same holds true for various towns that vary in value growth as well as differences between urban and rural properties. Knowing markets can vary within a county, the same is true from county to county. Not all markets and shifts occur identically throughout the state.

Now for the million-dollar question, since generally the public is aware values are increasing, will this result in an equal increase in property taxes? The actual or assessed value is only one part of the equation. The actual or assessed value as established by the assessor's office may be reduced by qualified exemptions. The assessment limitation also plays a part in determining the taxable value. It is commonly known as the rollback. The assessment limitation calculation limits the statewide allowable growth in taxable value for each class of property to 3%. The application of the assessment limitation on individual properties results in the individual taxable value that tax credits are applied to. It is the taxable value, not the actual or assessed value, that the taxing bodies utilize for budgeting purposes.

An increase in value is not the only consideration as to whether an individual's property tax increases. It can contribute to an increase in tax burden, but other factors play a role as well. The primary determinant of property tax increases are the tax askings, or budgets of the local authorities, which include cities, counties, schools, and other levying authorities. Budget changes are the starting point for the tax burden and the aggregate valuations of all the properties are used to determine the levy rate applicable to each budget. This rate along with the taxable value for each individual property is simply the distribution mechanism for raising the amount of taxes required by the authority.

Property Tax Assessment and Market Value

Values can remain stagnant, and taxes may still increase. This may occur when tax askings, or budgets have increased. The same could be said that a tax bill could decrease even if values increased if there was a decrease in tax askings or budgets equal to or greater than the increase in taxable value. An individual taxpayer must look to the taxable value, not actual or assessed value.

The levy rate is really only a multiplier that serves to compute the amount of tax askings required by the authorities when multiplied by each individual property's taxable value. When budgets change and taxable values change there will be changes in the levy rate. If budgets or tax askings increase and the taxable values stay the same, the levy rate will increase. If taxable values increase and budgets or tax askings stay the same, the levy rate will decrease. The levy rate is driven by the taxable values and the tax askings.

Hopefully, while a simplified explanation of the process, this article provides insight into the role that the actual, and or, assessed value plays in the property tax process. There are many other components to the property tax process that are beyond the scope of this article, some of which includes tax credits, reimbursement from the state for backfills, equalization process, and other items.

Additional information may be found at the ISAA website or by contacting your local assessors' office. Individual assessors also have websites to provide public information. Assessors want to be informative and provide information and education for the public pertaining to the assessment process and the role assessors have within the overall taxation process.

BIO: Raymond Armel, ICA
Polk County Appraiser 1978 – 1986
Fayette County Assessor 1986 – 1999
Private Appraisal Practice 1999 – 2012
Chickasaw County Chief Deputy Assessor, 2012 – 2018
Chickasaw County Assessor, 2018 – current
Currently serving as Vice President of ISAA
IICA, Iowa Certified Assessor Designation
Board Member, NCRAAO (North Central Regional Association of Assessing Officers)
Certified General Real Property Appraiser, State of Iowa

US ★ Imaging

Rhonda Olson

Northern Account Manager

400 S. Franklin Street
Saginaw, MI 48607

Cell: (989) 928-1559
Fax: (989) 753-7333

e-mail: rolson@us-imaging.com

UMB

Committed to community.

Nate Summers | Senior Vice President
515.368.6073 | Nathan.Summers@UMB.com

Products, Services and Securities offered through UMB Bank, n.a.
Capital Markets Division and UMB Financial Services, Inc. are:
NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED