



INTERNATIONAL ASSOCIATION of **ASSESSING OFFICERS**

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October 10th, 2023

RE: Ohio SB153 and HB187

Dear Senators,

On behalf of the International Association of Assessing Officers (IAAO), I would like to address some concerns with SB153 and HB187 and the use of a three-year property valuation average.

Who is IAAO?

The International Association of Assessing Officers (IAAO) is a nonprofit educational organization founded in 1934. Its mission is to promote innovation and excellence in property appraisal and property tax policy and administration through professional development, education, research, and professional consulting service assistance. Its 8,500+ members are government officials and others interested in property valuation and assessment administration. IAAO members subscribe to IAAO's Code of Ethics and Standards of Professional Practice and to the Uniform Standards of Professional Appraisal Practice (USPAP).

IAAO is the primary publisher, educator, and developer of standards in the field of property tax assessment. For more than 30 years IAAO has established voluntary, objective standards for the improvement of assessment practices and has conducted a renowned research and technical services program to help jurisdictions attain these standards. As a standard-setting organization, the IAAO has published 16 Technical Standards aimed at improving assessment practices. Those standards should be looked at as best practices is developing tax policy.

Recent market volatility has caused values on individual properties to increase at rates not seen in modern history. Although a responsive government is of great importance, caution should be exercised when evaluating new property tax legislation and in considering potential shortcomings.

IAAO's mission of advancing fair and equitable property appraisal, assessment administration, and property tax policy around the world starts with the good work you are doing.

The Issues:

Although using a 3-year average value in performing a sales ratio study might seem to solve issues of fast market appreciation on the surface, using an average effectively caps the values of certain properties.

These limits in value increase cause fast growing areas to be under taxed while over taxing slow or negative growth areas.

In a 2010 paper entitled Assessed Value Cap Overview, published in the Journal of Property Tax Assessment and Administration, the IAAO Research Committee noted that:

“Assessment limits protect taxpayers owning properties that have rapidly increasing market values at the expense of taxing district revenue or taxpayers owning properties with decreasing values or with more limited increases. The tax shifting that occurs tends to be invisible to those who pay more because they cannot determine what their taxes would have been without the assessment limit. As with exemptions, there is a smaller tax base, which leads to higher property tax rates, which in turn tend to lead to more pressure to reduce a major funding source for local governments.”

The Lincoln Land Institute reviewed caps and freezes in a 2021 book, Property Tax Relief for Homeowners, and came to similar conclusions as IAAO.

“Tax limitations are one of the most common responses to political pressure for property tax relief. These limits can constrain growth in property taxes, but they may also shift the revenue mix to less reliable sources, reduce the quality of local services, and impede local governments’ ability to respond to local preferences and changing circumstances.

Assessment limits shift the tax burden toward poorer neighborhoods, create large disparities in tax bills for owners of similar properties, lead to “lock-in” effects that discourage mobility, and introduce new complexities into the property tax system.”

The recent increase in valuations of properties has been challenging for property owners, jurisdictions, and the assessment community. Adding caps or averages might assist with existing issues for a subset of property owners but will shift tax burdens in ways that cannot be easily anticipated. The only certainty in that scenario is the creation of inequities in the treatment of your constituent property owners.

Example:

This example presents an issue with a three-year average value ratio approach. In the example below we use a year one value of \$100,000 in a no growth area, an area of growth and an area with fast growth. The no growth area example shows a 0% change in value each year. The growth area shows a value increase of 10% each year and the fast growth area shows 20% growth per year. A 1% tax rate is used in the example.

Annual Growth	No Growth Area 0%	Growth Area 10%	Fast Growth Area 20%
Year 1	\$100,000	\$100,000	\$100,000
Year 2	\$100,000	\$110,000	\$120,000
Year 3	\$100,000	\$121,000	\$144,000
3 Year Average Value	\$100,000	\$110,333	\$121,333
1% Tax Rate	\$1,000.00	\$1,103.33	\$1,213.33
Effective Tax Rate Based on Year 3 Value	\$1,000.00/\$100,000 = 1.0000%	\$1,103.33/\$121,000 = 0.9118%	\$1,213.33/\$144,000 = 0.8426%

You can see from the example above that no or slow growth areas will pay a higher effective tax rate, 1.0000% in this example and fast growth areas will pay a much lower effective tax rate of 0.8426% under a three-year average system. Inequity is the likely result of the currently proposed bill.

Possible Alternative:

An alternative might be to increase or otherwise modify Ohio's current homestead exemption, consider circuit breakers or to look at income tax credits for lower income citizens.

IAAO believes that a market-based valuation system is at the core of every good property tax system. Therefore, all parties must work together to identify any issues that currently exist and to prevent disparities from occurring in the future.

IAAO promotes the following as cornerstones of providing fair and equitable property assessments:

- Appraising properties on a regular basis to determine Fair Market Value
- Following IAAO technical standards on assessment and office operations
- Allocating adequate resources to jurisdictions to carry out the assessing function in

- accordance with best practices
- Providing assessors and assessing staff with training and ongoing professional development

IAAO continues to develop additional tools to assist assessors, jurisdictions, legislators, and the public on fair and equitable assessment matters.

For more information on property tax policy the IAAO has developed a standard on property tax policy. A copy of that policy can be found at https://www.iaao.org/media/standards/Standard_on_Property_Tax_Policy.pdf

IAAO would like to support Ohio in continuing a fair and equitable property tax system and would be happy to be of assistance as you move forward.

Respectfully,



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