

# Seward County Board Of Equalization

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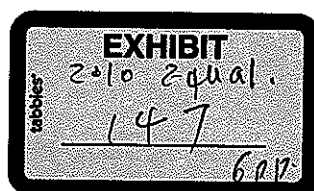
December 8, 2009

Ruth Sorensen  
Property Tax Administrator  
301 Centennial Mall South  
P.O. Box 98919  
Lincoln, NE. 68509-8919

Dear Ms. Sorensen,

The Seward County Board of Equalization has been made aware of the process that will be used to analyze agricultural land sales for the purpose of setting agricultural land values and for the reporting to the Tax Equalization and Review Commission (TERC) for statewide equalization. It is our understanding that the Property Assessment Division will be including sales that have improvements (buildings) on them if the assessed values of those improvements are less than 5 percent (%) of the selling price. The sales ratio will be calculated by subtracting the assessed value of the improvements from the total assessed value and then dividing that remainder by the entire selling price, giving no consideration to those improvements in the selling price. In Seward County some of those improvements could be valuable grain or equipment storage facilities. We also have improvements of farm home sites that could fall into that 5% category, especially with the current market of agricultural land. These factors may distort the sales ratios consequently resulting in setting values on agricultural land that may not be truly representative of what agricultural land is selling for.

The Technical Standards Committee of IAAO (International Association of Assessing Officers) recently met and discussed the issue of the proper way to calculate a sales ratio when there are improvements on a property. Attached is their proposed verbiage to update the Standard on Ratio Studies.

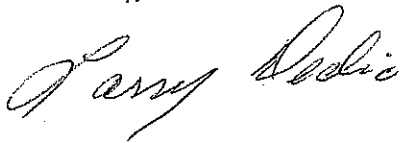


The Nebraska Appraisal Board has also met and discussed the proper way to do this calculation. They also will be having an opinion out in the very near future.

Due to this recent information the Seward County Board of Equalization respectfully request the Property Assessment Division analyze agricultural land using only unimproved sales from Seward County for the purpose of reporting to TERC and analyzing to see if our county's land values are compliant with the statutory level of value. If the Property Assessment Division continues to use the 5% minimally improved agricultural land sales then we request that the proposed verbiage from IAAO be followed and the value of the improvements be adjusted from both the assessed value and the selling price before that sales ratio is calculated. State statute §77-1327 (3) states the comprehensive assessment ratio studies shall be developed in compliance with professionally accepted mass appraisal techniques.

Thank you for your consideration in this matter. We look forward to hearing from you and remain optimistic that the Property Assessment Division will follow the IAAO Standard on Ratio Studies new proposed verbiage.

Sincerely,



Larry Dedic, Chairperson  
Seward County Board of Equalization

Cc: Senator Greg Adams  
Governor Heineman  
Larry Dix  
Doug Ewald  
Tax Equalization and Review Commission  
Wendy Elston, Seward County Attorney

Attachments

# Standard on Ratio Studies

## Part 1. Guidance for Local Jurisdictions

### 3.5 Matching of Appraisal and Market Data

The physical and legal characteristics of each property used in the ratio study must be the same as when sold. This implies two essential steps. First, the appraiser must ascertain whether the property descriptions match. If a parcel is split between the appraisal date and the sale date, a sale of any of its parts should not be used in the ratio study.

Second, the appraiser must ascertain whether the property rights transferred, the permitted use, and the physical characteristics of the property on the date of assessment are the same as those on the date of sale. If the physical characteristics of the property have changed since the last appraisal, adjustments may be necessary before including the property in a ratio study. Properties with significant differences in these factors should be excluded from the ratio study.

When statutory constraints are imposed on appraisal methods, the resulting assessment may be less than market value. In such cases a sales ratio study may not provide useful performance information. Constraints typically apply to land that qualifies for agricultural use value, subsidized housing, mineral land, and timberland.

Sales may include property of a type other than the type for which the ratio study analysis is intended. However, sales including more than minimal values of secondary categories are unlikely to be representative, even with adjustment.

This sale can be included as representative of the commercial category. In this case, the numerator in the ratio calculation would be the total appraised value including the value of both the commercial and residential components.

In a second example, for a ratio study of vacant land, the numerator in the ratio should reflect only the appraised value of the land. The sale price should be adjusted for the contributory value of the improvements or the sample should be excluded from further analysis.

#### 9.1.1 Purpose of Level-of-Appraisal Standard

Jurisdictions that follow the IAAO recommendation of annual revaluations (*Standard on Property Tax Policy* [IAAO 2004] and *Standard on Mass Appraisal of Real Property* [IAAO 2002]) and comply with USPAP standard rules should be able to develop mass appraisal models that maintain an overall ratio level of 100 percent (or very near thereto). However, the local assessor may be compelled to follow reappraisal cycles defined by a

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## *Standard on Ratio Studies*

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### **Part 2. Equalization and Performance Monitoring**

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#### **3.5 Matching Appraisal Data and Market Data**

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The physical and legal characteristics of each property used in the ratio study must be the same when appraised for tax purposes and when sold. This implies two essential steps. First, the property description for the sold parcel must match the appraised parcel. If a parcel is split between the appraisal date and the sale date, a sale of any of its parts should not be used in the ratio study.

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Second, the property rights transferred, permitted use, and physical characteristics of the property on the date of assessment must be the same as those on the date of sale. Properties with significant differences in these factors should be excluded from the ratio study.

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When statutory constraints are imposed on appraisal methods, the resulting assessment may be less than market value. In such cases a sales ratio study may not provide useful performance information. Constraints typically apply to land that qualifies for agricultural-use value, subsidized housing, mineral land, and timberland.

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Sales may include property of a type other than the type for which the ratio study analyses is intended. However, sales including more than minimal values of secondary categories are unlikely to be representative, even with adjustment.

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For example, a property that is predominantly commercial may include residential components. This sale can be included as representative of the commercial category. In this case, the numerator in the ratio calculation would be the total appraised value including the value of both the commercial and residential components.

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In a second example, for a ratio study of vacant land, the numerator in the ratio should reflect only the appraised value of the land. The sale price should be adjusted for the contributory value of the improvements or the sample should be excluded from further analysis.

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#### ***3.5.1 Stratification for Equalization Studies***

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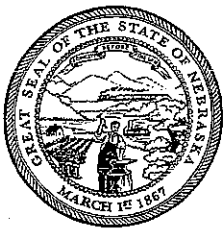
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Oversight agencies generally should define the strata prior to acquiring and compiling data for the ratio study. Predefined stratification is more transparent and enhances cooperation between the oversight agency and the jurisdiction appraising the property subject to equalization. In general, oversight agencies should not redefine the strata once they have

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Dave Heineman  
Governor

# STATE OF NEBRASKA

DEPARTMENT OF REVENUE

Douglas A. Ewald, Tax Commissioner

PROPERTY ASSESSMENT DIVISION, Ruth A. Sorensen, Administrator

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Mr. Larry Dedic, Chairperson  
Seward County Board of Equalization  
P.O. Box 190  
Seward, NE 68434

Dear Mr. Dedic:

Thank you for your letter regarding the inclusion of minimally improved agricultural land sales in the assessment sales ratio studies that are performed by the Department of Revenue, Property Assessment Division (Division).

The Division spent considerable time studying how the market value of agricultural land is affected by non-production real property (buildings, etc.) located on sold agricultural parcels. These studies included reviewing the minimally improved agricultural land sales to determine what, if any, effect the inclusion of these sales has on the agricultural land sales ratios for the counties and any market areas within the counties. The results of these studies indicate that the non-production real property on sold parcels of agricultural and horticultural land have very little or no effect on the selling price. These studies are supported by the research published in *Nebraska Farm Real Estate Market Developments 2008-2009*, by Bruce B. Johnson and Ryan Lukassen, dated June, 2009, <http://www.agecon.unl.edu/realestate/RE2009.pdf>, which states in relevant part:

The vast majority of the transfers in 2008, 82% were parcels without buildings. Another 10% of the parcels did have buildings, but reporters rated them as being in poor condition, and thus, contributing little to value. So, in essence, the market for agricultural property across the state is currently one of land only. Parcels with buildings of any meaningful value are the exception in today's market.

*Id.* page 13.

To clarify, the Division is not using the minimally improved agricultural land sales to set the agricultural land values in the counties. These values are set by the local county assessor. This analysis is being used to measure the levels of value of agricultural land to determine if the values that were set comply with the statutory requirement of 69 to 75 percent of actual value. This data is used for statewide equalization purposes.

Included with your letter were two pages of the ten page exposure draft for the Standard on Ratio Studies issued by the International Association of Assessing Officers (IAAO) Technical Standards Committee. As your letter acknowledges, this draft language is only proposed at this

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Mr. Larry Dedic  
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time and is not a part of the IAAO Standards on Ratio Studies. IAAO issues these exposure drafts to allow members time to review and submit comments and/or suggestions. Any and all comments and/or suggestions are due by January 8, 2010. Clearly this draft language should not be used or relied upon until a final amendment to the Standards on Ratio Studies is made.

The Seward County Assessor has been advised, if she or any other assessor provides the Division with verifications from both the buyer and seller agreeing to the value allocated to the non-production real property (buildings, etc.) involved in the transaction, the Division will make appropriate adjustments to the sale price. It is imperative that the value attributed to the non-production real property is more than a mere allocation for depreciation purposes and should contribute a meaningful value to the overall selling price. These verifications should be supported by professionally accepted mass appraisal techniques as employed by the county.

If you, or any other member of the Seward County Board of Equalization would like to demonstrate and provide the Division with information and documentation that supports your position that not adjusting the sales price for the minimally improved agricultural land sales has an effect on the statistical measures of the agricultural land in Seward County, it will be taken into consideration when determining how the Division will move forward with regard to the use of minimally improved agricultural land sales.

I look forward to the receipt of any information or documentation that you may provide. If you or any other board member has any further questions or concerns, please feel free to contact me at any time.

FOR THE TAX COMMISSIONER

Sincerely,



Ruth A. Sorensen  
Property Tax Administrator  
(402) 471-5962

Cc: Senator Greg Adams  
Governor Heineman  
Larry Dix  
Doug Ewald  
Tax Equalization and Review Commission  
Wendy Elston, Seward County Attorney