

Policy Brief 17

ACQUIRING ESSENTIAL SALES INFORMATION IS
A STATE RESPONSIBILITY

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Most Missouri assessors lack sufficient sales information and must rely on an inferior method, the cost approach. The result is less equitable taxation, a problem that is compounded at the state level.

Without substantially increased access to sales information, Missouri's assessors cannot achieve professionally accepted standards for accuracy and the State Tax Commission of Missouri cannot fulfill its dual role of assuring intra-county and inter-county equalization. While assessments are made locally, the proper operation of the property tax system is a state responsibility. Missouri has several options about how it seeks additional information, but to date the legislature has chosen none. Unless the legislature makes a choice in 2008, the use of improved information will be delayed until at least 2013 for many counties. This policy brief explains the need for additional sales information, clarifies the status of information in Missouri, and identifies policy options.

Assessments and Oversight Must Be Based on Market Value

The **state** constitution and **state** statutes define the primary responsibility of assessors as the determination of the market value of properties so that the tax burden can be distributed equitably. However, market values must be estimated because they are not observable. The appraisal and assessor professions recognize three approaches for estimating market values. The premier professional organization for assessors, the International Association of Assessing Officers (IAAO), states: "Sales data are required in all applications of the sales comparison approach, in the development of market-based depreciation schedules in the cost approach, and in the derivation of capitalization rates or discount rates[for the income approach]." The IAAO also notes that sales information is also essential to developing land values and identifies that the sales comparison approach as the preferred method for residential properties¹ and the income method as preferred for commercial properties. Most Missouri assessors lack sufficient sales information and must rely on an inferior method, the cost approach. The result is less equitable taxation, a problem that is compounded at the state level.

The Missouri State Tax Commission (STC) is required to assure that assessors comply with the **state** constitution and **state** statutes regarding the assessment levels and is required to initiate corrective action as needed. This requires a reliable measure of local results, which is best achieved by conducting a sales ratio study. Since Missouri has no effective process for providing the required sales information, the STC relies on an appraisal ratio study instead. Such studies are slow, expensive and subjective. The costs lead to compromises that further degrade the reliability of results. The STC plans sales ratio studies where sufficient sales information is readily available. Without a new source of sales information, this improved method cannot be used in most Missouri counties. While the STC awaits legislative progress, the STC must devote approximately half its staff to conduct appraisal ratio studies of questionable reliability. A recent IAAO study of STC's ratio study practices recommended that Missouri's switch to sales studies as quickly as possible, preferably with the assist of mandatory disclosure². It is difficult to contemplate a transparent and objective process for measuring local results and enforcing statewide standards without primary reliance on sales ratio studies – as is the case in 48 states.

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¹ International Association of Assessing Officers (2002). *Standard on Mass Appraisal of Real Property*. Kansas City: IAAO.

² Dornfest and Davis (2007). "Report and Recommendations on Ratio Study Procedures of the Missouri State Tax Commission." IAAO.

Sales Information in Missouri

Jackson, St. Louis and St. Charles Counties and the City of St. Louis have access to mandatory disclosure of sales information, due to local ordinances. The **state** prohibits other counties from making a local choice. The remaining 111 county assessors are dependent on information voluntarily provided by owners or third parties. For most assessors, the resultant information is insufficient. In 2005, Public Policy Research Center (PPRC) found that some states have implemented voluntary disclosure with considerably more success than Missouri. Subsequently, the STC has experimented with a more vigorous voluntary disclosure process in two counties. Without new funding, this remains in the experimental category. Inadequate sales information reduces local assessment accuracy and equity, which leads to assessment levels that do not comply with the **state** constitution and inequities that exceed professional standards. The same insufficient information precludes the STC from using an efficient and reliable process for identifying and correcting problems.

Policy Options for Acquiring Additional Sales Information

Several varieties of mandatory or voluntary disclosure offer opportunities for improvement:

Mandatory Disclosure: The most efficient option for acquiring market data is mandatory disclosure of sales information (used in approximately 40 states)³. Mandatory disclosure is supported by IAAO, STC, Missouri State Assessors Association and American Bar Association⁴, but not by past Missouri Legislatures.

Mandatory Disclosure with Confidentiality: Approximately five states require mandatory disclosure of sale prices but restrict its access and use⁵. This allows assessors to collect sales information while maintaining taxpayer privacy. Without a special provision, this option might limit the ability to conduct independent evaluations and/or limit access to information necessary for some taxpayer appeals.

County Option: Current **state** law precludes 111 counties from making a local decision regarding mandatory disclosure. The state could permit each county to make its own decision.

Voluntary Disclosure: Most Missouri counties currently pursue voluntary disclosure with limited success. A purely local voluntary approach has many drawbacks – too many to mention here. Previous research by PPRC found state level efforts more successful provided they were appropriately funded. Utah (e.g.) successfully acquires sufficient residential information and Oklahoma (e.g.) has an excellent program for commercial properties. Missouri could immediately begin by funding a program through the STC, whether it was conducted by staff or contract – and whether it was intended to be temporary or permanent.

Mandatory Disclosure with a Buyout Option: Another option is to require disclosure, but provide an “opt-out” with the payment of a fee (to support the increased assessment cost). Those owners who feel strongly about privacy can opt-out, if they are willing to pay for the additional privilege. Creation of a fee schedule would need to consider keeping fees affordable for small transactions and high enough for large transactions to avoid making opting out virtually automatic for larger transactions. However, it costs assessors much more to appraise a \$10 million commercial building than a \$75,000 residence.

Conclusion

Assessments constitute one of the two ingredients for determining taxes (the other being the tax rate). An equitable and constitutionally compliant system requires accurate assessments, which require sufficient sales information. Sales disclosure alone does not guarantee assessment accuracy, but a lack of sales information virtually precludes accuracy. Missouri has denied this essential information to assessors and the STC. If the Missouri Legislature is serious about property tax reform, it must take action to provide the necessary information. Continued inaction is not excusable.

Since Missouri has no effective process for providing the required sales information, the STC relies on an appraisal ratio study instead. Such studies are slow, expensive and subjective.

¹Dornfest and Thompson (2004). “State and Provincial Ratio Study Practices: 2003 Survey Results”. Journal of Property Tax Policy and Administration. Vol 1, No.1 IAAO: Kansas City.

²Dornfest and Davis (2007). “Report and Recommendations on Ratio Study Procedures of the Missouri State Tax Commission.” IAAO.

³Ibid.