

PERFORMANCE EVALUATION OF PROPERTY TAX FUNCTIONS

PREPARED FOR

IDAHO STATE TAX COMMISSION

By

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Acronyms

The following acronyms are used in this report.

AG:	Idaho Attorney General's Office
AGJD:	Almy, Gloudemans, Jacobs & Denne
CAMA:	Computer-assisted mass appraisal
CAP:	Centrally Assessed Property section of the CSD
CAT:	A coming replacement for PTS
COD:	Coefficient of dispersion (an assessment uniformity statistic)
CSD:	County Support Division of the STC
DCF:	Discounted cash flow analysis (used in the valuation of income-producing properties)
DOR:	Department of revenue (a counterpart to the STC in other states)
GIS:	Geographic information system
GUI:	Graphical user interface
HCLD:	Historical cost less depreciation
IAAO:	International Association of Assessing Officers
IACA:	Idaho Association of County Assessors
LAP:	Locally Assessed Property section of PAB
MRA:	Multiple regression analysis (a statistical method used in mass appraisal, among others)
MLS:	Multiple listing service (of real estate brokers)
NCUVS:	National Conference of Unit Valuation States
PAB:	Property Appraisal Bureau of the CSD
PRD:	Price-related differential (an assessment uniformity statistic)
PTS:	A computer system used in operating property assessment apportionment
RCLD:	Replacement cost less depreciation
RDBMS:	Relational database management system
RFP:	Request for proposals
RLA:	Research and Local Assessment section of the PAB
SPSS:	Statistical package for the social sciences (a brand of statistical software package)
SQL:	Structured query language
STC:	Idaho State Tax Commission
TSB:	Technical Support Bureau of the CSD
UAD:	Uniform Assessment Development system
USTC:	Utah State Tax Commission
WSATA:	Western States Association of Tax Administrators

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Again we would like to thank the Tax Commission and staff, county officials, and other stakeholders for their contributions. We believe the professionalism and dedication we witnessed augurs well for future improvements in the Idaho property tax system.

The Almy, Gloudemans, Jacobs & Denne project team comprised Richard Almy, Robert Denne, and Robert Gloudemans, partners in the firm, and Michael Zeigler, a specialist in operating property assessment with the Florida Department of Revenue, who joined the team as a subcontractor. The team wrote this report and is responsible for its findings and conclusions.

1. Introduction

1.1 Project Purpose, Scope, and Approach

With the appointment of a new commissioner to oversee its property tax functions, the Idaho State Tax Commission (STC) engaged Almy, Gloude-mans, Jacobs & Denne, Property Taxation and Assessment Consultants (AGJD), to make an independent performance evaluation of those functions. The STC wants to promote excellence and improve agency effectiveness and efficiency. It wants to comply with the state's laws and rules. The evaluation was to focus on:

- Property tax supervision generally, including resource adequacy and other specified issues
- Operating property assessment
- Computer and mapping support to counties

Accordingly, we were asked to determine (1) whether each functional area was using its resources economically and efficiently, (2) the causes of any inefficiencies or uneconomical practices, (3) the effectiveness of each area, and (4) whether the STC was in compliance with the state's laws and regulations. We were asked to make recommendations for improving performance. This report contains our findings and recommendations. In each area evaluated, we state what we consider to be "best practices" and indicate how we believe the STC measures up. We suggest ways to improve current practices.

Our findings and recommendations are based on a systematic evaluation of the STC's property tax functions. We interviewed key STC personnel, county assessors, and other stakeholders. We reviewed relevant documentation. Our report deals with the situation in mid-2000, and it should be stressed that the STC's property tax-related activities have undergone considerable change in recent years, with many of the changes representing advancements. We anticipate that the STC will continue to make advancements. We should point out that it is natural in a review like this to focus more on weaknesses than strengths. We also acknowledge that experts can differ about whether there is a problem or about what the best solution is. Finally, we hope that our criticisms will not obscure the considerable achievements of the STC.

1.2 Evaluative Context

1.2.1 Introduction

The frame of reference for our performance evaluation included our knowledge of best practices in other states and provinces and of relevant professional standards promulgated by the International Association of Assessing Officers (IAAO), the Appraisal Standards Board, and others. Here we attempt to sketch out our general vision of "best practices" by state-level property tax supervisory agencies. However, it is important to emphasize that a "one size fits all" approach is not what we have in mind. Each state must seek its solutions to common problems with property tax administration, because of the complexities of property tax systems.

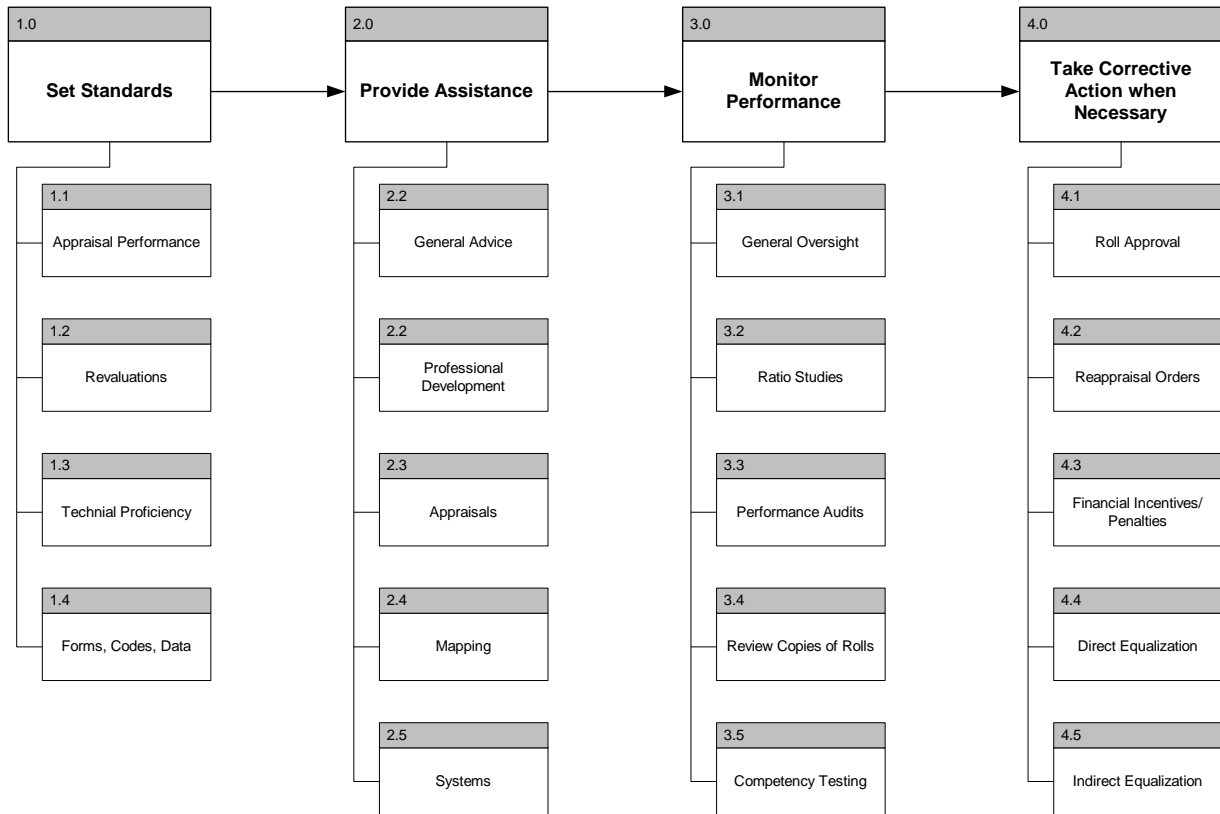
Generally however, property assessment has several phases: original assessment, review and appeal, and supervision. Although local governments generally have major responsibilities for original assessment and review and appeal, state agencies typically are involved in all phases. Even when the property tax is essentially a local tax, effective state-level participation in the administration of the tax is considered vital for several reasons. A state has a fundamental duty to ensure that its laws are administered properly and uniformly. Equally important, effective supervision benefits local governments. Many of the tools and services that states provide are too costly to be afforded by many local governments. Effective supervision deters destructively competitive underassessment. This reduces local government demands for state aid. A competent state property tax supervisory agency tends to encourage competence in local assessment offices.

A so-called general model of assessment supervision, which is derived from recommendations made by the former US Advisory Commission on Intergovernmental Relations, IAAO, and others, provides a good framework for considering practice options potentially available to STC. The model assigns supervisory agencies four broad, interrelated functions: (1) setting standards and specifications, (2) assisting and counseling local assessors, (3) monitoring and analysis, and (4) enforcement. As exhibit 1-1 suggests, supervisory agencies may engage in a wide range of activities.

The development of standards and specifications is necessary for effective, uniform administration of property tax laws. Assistance and counseling activities are helpful to and supportive of effective local government. Although essential to effective state supervision, monitoring and analysis may be seen as an intrusion or a threat. Enforcement is contentious and confrontational, with the state being in a resented position of power. However, enforcement actions are necessary when local assessment practices do not come up to standards. The challenge a supervisory agency faces is achieving the balance of activities that results in the highest level of assessment performance with the least consumption of resources and the least amount of stress. In other words, the more effectively a state encourages high-level performance and the more effective its assistance activities, the less onerous its enforcement activities will need to be. In summary, the assessment supervision model combines effective programs for monitoring local conditions and local assessment performance, a strong commitment to assisting when necessary, “counseling” when performance falls below expectations, and enforcing legal standards firmly and consistently.

Application of the supervision model varies considerably. The executive branches of Delaware and Hawaii exercise virtually no supervision of local assessors. At the other extreme, Maryland and Montana have supplanted local assessors.

**Exhibit 1-1
ASSESSMENT SUPERVISION MODEL**



1.2.2 Standards and Specifications

States set standards and specifications to guide local assessors, facilitate the transfer of data, and provide an objective basis for measuring local assessment performance and for taking equalization and enforcement actions.

- Appraisal accuracy (ratio study) standards. Arguably, the most important area of standard setting by states is the establishment of appraisal performance (ratio study) standards. In accordance with the IAAO *Standard on Ratio Studies*, over thirty states (including Idaho) require local assessment districts to meet valuation accuracy standards based on ratio study statistics. Most common, the actual level of valuation must be within a certain distance from the legal level. About twenty-eight states, but not Idaho, require coefficients of dispersion to be less than a specified value, which may vary with the class of property in keeping with the IAAO standard. Failure to meet the standards can trigger enforcement actions. Other areas include standards for revaluations and reinspection programs, standards designed to improve the technical proficiency of assessment officials, standard forms, and data standards.

- Reappraisal standards. Increasingly, as is the case in Idaho, states accompany valuation accuracy standards with specific reappraisal requirements. The IAAO *Standard on Property Tax Policy* recommends an annual reappraisal program. Under such a program, the assessor continuously monitors both valuation accuracy using ratio studies and property market developments. When values change significantly for any segment of the property market or when accuracy standards are no longer met, the assessor decides on an appropriate course of action. Small deviations from performance standards can be handled by simple indexing, often referred to as “trending.” More substantial deviations require recalibrating valuation models or larger-scale valuation projects. At the same time, a schedule should be developed for inspecting properties to ensure that they are accurately described. Standards recommend reinspections at least every four to six years, and Idaho has adopted five years.
- Appraiser qualifications. Another strategy for improving valuation accuracy and, hence, property tax equity is to increase the technical competence of assessing officers. About forty states have established qualifications for assessors, appraisers who work in, or for, assessors’ offices, or both, and the qualifications are mandatory in about thirty (including Idaho).
- Forms, codes, and data formats. States have long set standards designed to ensure that assessors have the information needed to carry out their duties properly and to ensure that data transmitted to the state were in a standard format. These objectives originally were achieved by prescribing forms (states often furnished the forms in question) or by approving locally developed forms. Forms relevant to valuation and equalization studies include property records, sales reports, and other taxpayer returns. With the advent of computer technology, states began to set standards for record formats and for coding data. Often those standards were imbedded in computer systems developed by the state for local use. Such standards-setting indirectly promotes consistency in policy and practices. They facilitate transmission of information electronically and analysis of that information.

Standards may be contained in legislation, regulations, or guidelines. These may be compiled in an assessor's manual (see section 1.2.3).

1.2.3 Information and Assistance

State technical assistance activities vary widely. States provide assessment tools and equipment, technical and professional services, and assist with assessment personnel education. The activities include:

- General advice. Virtually all states with a supervisory agency, including Idaho, provide general advice to local assessors.
- Legal opinions and interpretations. At least forty-five states provide some legal and technical support to their local assessing units. This may range from formal legal opinions that will set state policy to a telephone response that enables an assessor to solve a

particular problem. New issues and questions are constantly surfacing that require a state response if consistency and uniformity are to be maintained across the state. As noted in section 5.4, the posture of the Idaho Attorney General's Office is that legal assistance to county officials is the responsibility of county attorneys.

- Manuals. Over thirty states issue an assessment manual. These manuals may be either compiled by the state or commercially prepared. In some cases, the manuals contain only appraisal information, but in many states they contain complete, detailed instructions on many aspects of the assessment function. Appraisal manuals may consist of valuation methodologies, data collection procedures, cost indices, economic indices, and CAMA guidelines. Non-appraisal manuals may cover the responsibilities of the assessor, exemption administration, relevant law, and the appeals process. For manuals to be of value they must be regularly updated. As discussed in section 6.3, the STC was forced to disavow and discontinue support of a manual because of the State's peculiar written communication policies, which make it difficult to use official written communications to help local officials.
- Bulletins and newsletters. Assessors need information about what is occurring in the assessment field both within their state and elsewhere. Many state agencies issue bulletins and publish newsletters to provide assessors with important information. Idaho does not for the reasons noted above.
- Education and training. As with certification of assessment personnel, states play a major role in educating assessment personnel. Educational activities may range from cosponsoring conferences to mandating training. Over forty states provide education and training, and about twenty states have mandatory training. Education often is contracted out to a state association or university, to the IAAO, or to another organization. Training programs may be quite extensive and include assessment administration; exemption administration; basic valuation methods; advanced use of the income approach; valuation of specific types of property, such as agriculture, land, utilities, personal property, and complex commercial and industrial properties; data collection; computers and software; CAMA; public relations; and professional standards and ethics. Generally, annual conferences are used to update assessors on recent developments. The conferences may be held in conjunction with an assessors' association meeting. In some instances all the training is paid for by the states. As discussed in section 6.4, Idaho seems to have a good education program.
- Computer services. At least thirty states, including Idaho, have sponsored the development of computer-assisted mass appraisal (CAMA) systems and other property tax related systems. The systems may be developed internally or acquired from a vendor. Some states provide technical support, while others provide computer processing. The services offered by the states may be free of charge, or done on a charge-back basis. In some cases the computer system and services are mandatory and in other cases at local discretion.

- Valuation assistance. About thirty states provide direct on-site valuation assistance. About twenty-three states assist with property inspections. Valuation assistance ranges from occasional, as-needed services to major mass appraisal assistance, such as a full-scale reappraisal project. Montana, Tennessee, and West Virginia are examples of states that routinely provide large-scale assistance. About twenty states assist with valuation modeling. Arizona and Kansas are outstanding examples of states involved in mass appraisal modeling and computer processing. States frequently assume responsibility for valuing railroad, utility, and similar property. Oregon, Wisconsin, and other states assess industrial property.
- Mapping. Many states assist with cadastral mapping. Assistance ranges from providing specifications, to providing financial assistance, to actually making maps.
- Public relations. A very important part of every assessor's job is maintaining good public relations. State agencies often produce publications and handouts which assessors can provide taxpayers, and Idaho has produced a number of pamphlets of this sort. These handouts may explain the assessment process, the job of the assessor, reassessments, the appeals process, and various individual exemptions and how to apply. Some states may go further and work with assessors in media relations and provide video materials.
- State aid. A number of states provide funding for reassessments or for assessment administration improvements. State aid is generally provided as an incentive to entice assessing units to take certain actions. State aid may underwrite part of the cost of training or the assessment process or it may be related to the quality of assessment practices and the assessment roll.

1.2.4 Monitoring and Analysis

States employ a range of techniques to monitor the performance of local assessors. They range from informal, unstructured contacts with local assessors to detailed performance audits. Common monitoring techniques include:

- Field staff. Most states have a staff with positions similar to Idaho's consulting appraisers (see 6.2 and 7.2). Routine contact with local assessors allows field personnel to form general, subjective opinions of the quality of assessments and assessment practices in the districts visited.
- Ratio studies. According to a 1997 survey by Alan Dornfest and the IAAO, at least forty-five states conduct ratio studies. Idaho is among them—see section 7.1.
- Abstracts and copies of rolls. Virtually all states require assessors to submit abstracts of rolls, and an increasing number require assessors to furnish copies of rolls and sometimes property records (electronically when possible) as well. Copies of rolls and property records, particularly when they are supplied electronically, provide the data needed for rigorous analyses of local assessment performance. Among other things, they allow states to test for even-handed assessment practices between properties that have been re-

cently sold and those that have not. Arizona, Florida, New York, and Utah are among the states that require assessors to submit digital copies of sales files and assessment rolls for use in the states' enforcement and equalization programs.

- Performance audits. Performance audits may be used in conjunction with ratio studies as a general monitoring tool. They also may be used in lieu of ratio studies when sales are insufficient and when sales are irrelevant (such as when property is based on its use-value and when personal property is appraised on the basis of declarations).

1.2.5 Corrective Actions

Effective enforcement tools are necessary to reduce assessment inequities within an assessment district and among assessment districts. Effective enforcement requires adoption of specific performance standards, as mentioned above, and workable remedies when the standards have not been met. As with Idaho, state legislatures have given supervisory agencies a wide variety of enforcement tools, and common tools are listed below. In practice, the more powerful the tool, the less likely it is to be used either because political will is lacking or because of the Draconian nature of its consequences.

- Removal of the power to levy property taxes. Arguably, the strongest enforcement measure is to deny a local government the power to levy property taxes unless the assessment roll has been approved. Usually before such a tool is used, the state has ordered a reassessment (see below) and the local government has refused to comply. Although the tool is so powerful that few states actually use it, Florida is among those that have successfully used it. A difficulty is that the tool may “punish” taxing districts that have no responsibility for the assessor’s performance.
- Reassessment orders. About thirty states, including Idaho, have the authority to order a reassessment when valuation accuracy standards are not met. Problems with this approach include the time and expense required to effect the remedy and the uncertainty regarding the outcome.
- Assumption of the duties of the assessor. Related to removal from office (below), the state may have the power to assume the assessment function if the assessor fails to perform her or his duties, including complying with a reassessment order. Alternatively, the state may exercise administrative supervision of all or certain assessment functions for a prescribed period of time.
- Contract for a reassessment. As most states do not have the resources to conduct a reassessment on short notice, about twenty states have the authority either to hire a private appraisal firm or for the state to perform a reassessment at local expense.
- Withhold state aid. About ten states can withhold state funds (usually education aid or revenue sharing) if there is a failure to adhere to state property tax administration standards.

- Financial incentives. An alternative to withholding aid is to provide additional state funding to local assessment districts that comply with standards.
- Equalization. As noted, equalization can be viewed as an enforcement tool. In contrast to other tools, equalization can be less confrontational and is of limited effectiveness inasmuch as it can only cure inequities among groups of properties and among assessment districts. There are two types of equalization programs. In the first (sometimes known as “direct” equalization), the calculated equalization factor is applied to each local assessment before the local tax rate is applied. In most states, the same factor is applied to all properties in the jurisdiction. In a few (including Idaho), a separate factor may be developed for each major class of property. Equalizing each assessment is more effective because it highlights inequities in the underlying assessments. About eighteen states have this authority. In the second approach (known as “indirect” equalization), only the total assessed value is equalized. The adjusted total (or equalized) value is then plugged into an aid distribution formula. Individual assessments and most local taxes are not affected. Under either approach, the equalization factor is designed to bring the total assessed or appraised value of the district into line with the legal standard. Thus, if the legal assessment level were 50 percent of value and assessments generally were at 40 percent, all assessments would be increased by 25 percent (multiplied by 1.25) to bring the assessing unit to 50 percent. Of course, individual assessments might in actuality be higher or lower than 50 percent.
- Removal from office. Some states have the ability to remove an assessor from office.
- Fines and penalties. Many state laws provide for fines and penalties if assessors fail to perform their responsibilities. In practice, these are seldom used, because the cost of assessing them usually is much greater than the fine.

1.2.6 Central Assessment

As is the case in Idaho, state supervisory agencies generally value railroad, utility, and similar properties. The agency finds the total value of the operating property of the entity and apportions that value among the local governments in which the entity has a presence. Local assessment of these types of properties is essentially limited to the New England states and New York.

Some states value other difficult-to-appraise properties (such as larger industrial facilities) as well, because local assessment districts find it difficult to maintain the required specialized valuation skills and acquire the required databases.

Typically state agencies establish the standards for valuing agricultural, forest, and open space properties when they are to be valued on a current-use basis.

2. Setting

A state's economy, its fiscal system and the relative importance of the property tax within that system, and jurisdictional arrangements influence a property tax system's development and evolution. The number and capacity of local assessment districts also influence a supervisory agency's workload.

2.1 Fiscal Setting

Data on tax burdens published in the Idaho State Tax Commission's 1999 annual report reveal that Idaho's sales and property tax burdens are comparatively low, while income tax burdens are comparatively high. (Among surrounding states, Nevada and Utah also have comparatively low property tax burdens, and Montana, Washington, and Wyoming have comparatively high burdens.)

Low reliance on property taxes appears to be a deliberate policy choice, because of the limits on increases in the property tax portion of local government budgets. There are several possible implications of Idaho's policy choice not to rely heavily on property taxes. Of direct importance to our review is the pressure to reduce spending by the state and counties on property tax administration commensurately. Rhetoric about reducing the role of state government and strengthening local governments notwithstanding, the policy weakens local governments' ability to serve their constituents, because the state has not provided them with alternative sources of revenue—except for a comparatively high level of state aid, which keeps local governments subservient to the state.

Idaho does not have a real property transfer tax. At least twenty-six states have such taxes. Although they seldom generate much revenue, they provide an indication of sales prices—information that is crucial in a market value-based property tax. (Even more useful in this regard are requirements that buyers and sellers disclose information about sales prices, terms, and other circumstances of the transfers on an affidavit. At least thirty-one states mandate such disclosures.) Sometimes a portion of transfer tax revenues is earmarked to help defray the costs of providing the document recording system.

1999 Idaho property tax revenues totaled \$860 million. State property taxes are negligible: \$132,000 is collected from small railroad car companies. The law (§ 63-216) prohibits a general state property tax levy while the sales tax is in force. State aid to local governments totaled \$875 million in 1998 according to the US Census Bureau. State support to local schools depends in part on ratio study findings (indirect equalization). Valuations also figure in sales tax distributions to cities.

2.2 Jurisdictional Setting

As is typical of western states, Idaho's forty-four counties are responsible for original assessment of taxable real and personal property except "operating property," which is assessed by the Tax Commission (below). County commissioners, assessors, auditors, tax collectors, and treasurers all participate in property tax administration. Assessors, of course, have primary responsibility

for assessment, and they presumably assist the other county officers with their property tax duties. County auditors have several important administrative functions. They prepare tax rolls and deliver them to county tax collectors. They prepare the abstracts of assessments that the Tax Commission requires. County commissioners sit as a board of equalization. The board's duties are to (1) "complete the equalization of assessments," (2) approve all exemptions, and (3) hear appeals of assessments.

In addition to their property tax functions, county assessors are responsible for administering and collecting vehicle licenses. Recreational vehicle license fees are based on the value of the vehicles, and the State Tax Commission issues valuation guidelines.

Assessors are elected to a four-year term. Currently, there are no limits on the number of terms an assessor may serve. However, a recently passed law will limit the number of terms to two beginning in 2002. The STC staff fears that this law, which is being challenged, will have a number of undesirable effects. The ability of local government offices in smaller counties to administer a complex property tax system will decrease as a result of more rapid turnover in elected officials and their staffs. This turnover will undercut the STC's efforts to strengthen the capacity of local assessors' offices. Even if it attempts only to maintain the status quo, the STC's costs for training and technical assistance will increase significantly. Whatever the putative advantages of term limits, the law may prove ineffective in reducing incumbency of some individuals if the experience in New Mexico is a guide (assessors there were limited to a single two-year term, but in some counties spouses and other close colleagues sought and often won succeeding terms).

The Idaho State Tax Commission is one of two components of the Department of Revenue and Taxation—the other being the Board of Tax Appeals. The Commission serves as a supervisory agency, and it assesses operating property. In addition to its property tax functions, the Commission administers other state taxes, including a tax on the gross earning of cooperative electrical associations, which is in lieu of property taxes on those properties.

The Board of Tax Appeals has jurisdiction to hear appeals from county boards of equalization, including their equalization actions. In addition to taxpayers, assessors and the Tax Commission have a right to appeal decisions of county boards to the Board of Tax Appeals.

There are over 1,000 local taxing districts in Idaho. Nearly 900 levy property taxes. Their boundaries often overlap assessment district boundaries. Moreover, the configuration of taxing districts frequently changes. As described in section 6.1.3, the Commission maintains maps of tax district boundaries and tax rate areas, the codes for which are used in determining the property taxes due on each property. Operating property assessments also are apportioned among taxing districts, based on these maps provided the companies order them (see section 8).

The Tax Commission's property tax staff sometimes feels that it is caught in the middle by pressures (or lack of support or understanding) from the legislature and the governor, counties, and business. Both counties and businesses appear to have effective lobbies. Manifestations of their effectiveness include recent changes in how operating property is to be assessed (see section 8), the forest land and forest products tax, the absence of a real property transfer tax, and the

counties' posture that the Tax Commission does not have and should not be given digital copies of rolls for performance-monitoring purposes, although we believe the Commission already has the authority now to require copies of rolls. Certainly, Idaho has a reputation for attempting to be attractive to business by not subjecting it to discriminatory tax burdens and by minimizing regulatory burdens. However, local assessors, who reflect the views of many residents, believe that the property tax system is overly "friendly" to business, which translates to higher property tax burdens on residential property owners. The Commission also operates under constraints imposed by the Department of Administration regarding dissemination of written information and by the Attorney General's Office regarding legal advice to county officials and enforcement activities. In the final analysis, it is not necessarily a bad thing that the STC feels pressured and unappreciated, as that creates an incentive to be responsive. Commendably, the STC has a program of consulting with stakeholders in government and business.

3. Legal Framework

Policies and processes gain legitimacy through legislation. The legislative framework of a property tax system should lay out policy choices clearly, provide an environment for their achievement, and assign responsibilities. Laws, regulations, and court decisions establish the legal framework. Section 3 provides an overview of Idaho’s legal framework for property taxation by describing the key elements of the system, including generally applicable standards and specifications. Measures specific to the activities discussed in sections 6 through 9 will be discussed in the applicable section.

Our evaluation of the legal framework for property taxation in Idaho is based chiefly on the “unofficial” compilation of statutes and regulations prepared by the Idaho State Tax Commission. Fortunately, Idaho’s property tax laws were recently recodified, so that they are logically organized and contain little obsolete material.

The main elements of the legal framework are contained in title 63 of the Idaho Code. It contains twenty-five chapters, although their numbers go higher, because some chapters have been repealed or not written. The chapters with greatest relevance to the functions of State Tax Commission are listed below.

<u>Number</u>	<u>Caption</u>
1	Department of Revenue and Taxation
2	Definitions-General Provisions
3	Assessment of Real and Personal Property
4	Appraisal, Assessment and Taxation of Operating Property
5	Equalization of Assessments
6	Exemptions from Taxation
7	Property Tax Relief
8	Levy and Apportionment of Taxes
14	Enforcement – Penalties
17	Taxation of Forest Lands and Forest Products
26	Resort County Local Option Sales or Use Tax

3.1 Property Tax Base

The property tax base defines the nature of the assessment task. Section 63-203 of the Idaho Code provides that all property is subject to appraisal, assessment, and property taxation unless expressly exempted. Section 63-204 establishes three classes of property: (1) real property, (2) personal property, and (3) operating property (which is defined in § 63-201). The tax base includes tangible business personal property except inventories.

Exemptions are detailed Chapter 6 of Title 63. Section 63-1708 provides an additional exemption. There do not appear to be any unusual exemptions.

3.2 Legal Basis of Assessment

The legal basis of assessment largely defines how assessments should be made. Commendably, Idaho law requires that assessments generally be based on market values (§§ 63-201 and 63-205). However, § 63-208 requires assessors to give major consideration to the actual and functional use of property in making their market value determinations. Agricultural and timberland is assessed on the basis of mandated current use-value standards.

Article VII, Section 2, of the Idaho Constitution requires that assessments be uniform within a class of property. The statutory level of assessment is 100 percent (§ 63-314). However, there are some rate differentials (some components of rates are not applied to some property classes).

The assessment date is 1 January. New non-residential structures are assessed based on the portion in place on 1 January of each year. However, § 63-317 provides for a value-based “occupancy tax” that is levied on newly constructed and occupied residential and commercial buildings that are completed during a year. The tax is prorated for the part of a year that the building is occupied. Improvements to existing buildings are excluded.

3.3 Assessment

Section 63-207 makes assessors generally responsible for assessment of real and personal property (except for operating property assessed by the State Tax Commission). Several sections of the statutes spell out their powers and duties. Section 63-208 makes it a duty for assessors to use recognized appraisal methods (as identified in rules) in their determinations of market value. Rule 204 requires assessors to consider all three approaches to value and broadly defines acceptable methods as those recommended by nationally recognized appraisal organizations. The rule specifically notes that market rents, not contract rent, should be considered (when using the income approach).

Section 63-209 requires assessors to maintain cadastral maps (plat records) and to number parcels according to the numbering system issued by the STC. Rule 260 spells out these requirements. The mapping and parcel numbering requirements substantially meet professional standards.

Personal property assessment requires assessors to furnish taxpayers with blank personal property statements, which the taxpayer is to complete, attest to, and return to the assessor by 15 March (§63-302). When one considers that many taxpayers have property in more than one county, it is somewhat surprising that the STC has no explicit authority related to personal property statements.

Idaho law makes the assessor responsible for several distinct assessment rolls, which the assessor must turn over to the county commissioners sitting as the county board of equalization by the statutory deadline. The initial roll each year is the property roll, which the assessor has jurisdiction over until the fourth Monday in June (§ 63-301). It contains real and personal property assessments. Any property omitted from the property roll is to be inscribed in the so-called subsequent property roll, over which the assessor has jurisdiction until the fourth Monday in

November. Similarly, the assessor has jurisdiction over the so-called missed property roll until the meeting of the county board of equalization in January. In addition, pursuant to § 63-301A, the assessor must maintain a new construction roll, which is required in the administration of budget limits. It is turned over to the county auditor in June, and a copy is to be forwarded to the STC.

A major component of Idaho's legal framework for assessment is § 63-314, which spells out the requirements for county valuation programs. Basically, this section reinforces the general market value assessment standard by requiring assessors to maintain assessments at market value each year through a combination of full reappraisals (which require field inspections) and valuation updates. Pursuant to the STC's rules, assessors are to reappraise 20 percent of all properties each year so that all properties are reappraised in a five-year interval, which will end in 2002. The valuations of properties not reappraised in a given year are to be indexed so that the level of assessment remains close to 100 percent of current market value. The law requires each assessor to develop and file with the STC for its approval a reappraisal plan and to maintain sufficient records to document compliance with the plan. Commendably, the law also requires counties to fund the valuation programs adequately. It also requires the STC to provide technical assistance when necessary. Section 63-316 authorizes the STC to monitor progress and to take enforcement actions (see section 9.3).

Pursuant to § 63-314, the STC has promulgated rule 314. It provides some guidance on what a plan is to contain and on what a valuation program entails. Although it provides for testing whether the current market value standard is being met, the rule does not provide for testing whether reinspections are being carried out as required (and consulting appraisers do not want to become "file cabinet police"). It does not address modifying the plan to deal with growth in the property base or other changes in circumstances over the five-year plan period. Overall, the rule is quite superficial.

With the exception of a few counties, the STC is reasonably satisfied with the counties' efforts to comply with the reappraisal program requirements. We inspected one county's plan (Twin Falls). If it is representative of most plans, our concerns about the superficiality of rule 314 are unwarranted.

Section 63-109 requires assessors to assign properties to categories developed by the STC for purposes of equalization. These categories are enumerated in rule 327. Proper assignment of categories is somewhat problematic. There are sixty-three categories in total, spanning real and personal property. The rationale for some categories is not self-evident. Separate categories exist for land and for any improvements on a parcel. A real property category may be defined by one or more criteria, including land use (actual or potential), whether or not the parcel is in a properly recorded subdivision, whether the parcel is within city limits, zoning, whether or not the property is a condominium, whether or not the property includes (or is) an improvement, how the improvement is used (as distinct from how the land is categorized), whether the improvement is manufactured housing, and other location attributes. As a result, some categories cannot be properly assigned simply by inspecting the property; information from other sources would be required. The rule does not deal well with mixed-use properties. Commendably, the STC has rule 327 on its agenda for review.

3.4 Role and Responsibilities of the State Tax Commission

In this section, we provide an overview of the role and responsibilities of the State Tax Commission in property tax administration. Section 63-101 of the Idaho Code establishes the STC. Section 63-105 spells out its general powers and duties, and its general property tax-related powers and duties are contained in § 63-105A. Other sections of the Code spell out specific powers and duties. The Tax Commission's powers and duties related to supervision and central assessment include:

- Administration and supervision.
- Issuing rules and construing laws administratively.
- Obtaining and analyzing data on valuations and other information. The law gives the Commission broad powers of access to assessors' and taxpayers' records, and they are required to submit to the Commission the data it requires. However, the Commission must prescribe the data it needs.
- Undertaking tax research.
- Prescribing and furnishing forms. Related to this authority, § 63-219 requires the Tax Commission to develop, maintain, and enforce statewide systems for the preparation of property rolls and uniform parcel numbering. Forms that the Tax Commission must provide include valuation assessment notices.
- Instructing and guiding assessors. The Commission has a duty to provide an education program for its employees, assessors, and county commissioners.
- Certifying assessment personnel.
- Providing aid to counties. Areas in which the Tax Commission is required to provide aid include parcel numbering, mapping, and software (§63-219).
- Equalizing assessments. The Commission has broad "direct" equalization powers as well as specific "indirect" equalization responsibilities.
- Compelling property omitted from assessment to be assessed.
- Investigating complaints.
- Bringing suit and taking other actions necessary to require compliance with property tax laws.
- Valuation of operating property.

- Providing the information needed to the forestland and forest products tax provisions.
- Assuming responsibility for assessing property should the assessor fail to.
- Reporting, and recommending legislation, to the governor and the legislature.

Other property tax-related duties include:

- Administering the property tax reduction (circuit-breaker) program.
- Approving local government budgets pursuant to chapter 8 of title 63 of the Idaho Code.

The Tax Commission administers Idaho's property tax reduction (circuit-breaker) program. This program offers property tax relief to low-income residential property owners. There currently are almost 25,000 approved claimants. The Commission (Technical Support Bureau) receives about 25,000 applications a year, reviews them, obtains corroborating data from other agencies, makes determinations, issues letters, and processes materials. The process is partially automated (and further system enhancements are under development).

Pursuant to § 63-809, the STC reviews local government budgets to ensure that they comply with limits spelled out in chapter 8 of title 63 of the Idaho Code. Basically, local governments cannot increase the property tax portion of their budgets by more than 3 percent, unless the electorate approves a greater increase, except for property taxes ascribed to new construction, changes in land use classifications, and annexations. The STC has about one month to review budget documentation and decide whether the budgets are proper. A member of the Research and Local Assessment section of CSD does the work with assistance from the Tax Policy unit (the organization of the STC is discussed in section 5.2).

The STC assists in the administration of the taxation of forestland and forest products under chapter 17 of title 63 of the Idaho Code. It develops capitalization rates, stumpage values, and other income and expense components used in forestland valuation. The STC also has the authority to assist counties in making investigations of land and timber owners' records. Similarly, the STC assists in the taxation of mine profits pursuant to § 63-2810.

Taken together, the Tax Commission's legal powers and duties would seem to provide a strong framework for effective property tax supervision. The Commission regularly and actively exercises some of its authority. It seems to neglect other apparent authority, such as use of written guidelines and its investigatory authority.

3.5 Rule Making

Administrative rules and regulations constitute part of the overall legal framework for property tax administration and for assessment supervision. In addition to its general rule-making authority, several sections of the statutes specifically direct the STC to make rules (for example, § 63-208). Consequently, the State Tax Commission has an active and well-organized procedure for making, amending, or repealing rules. Committees with representatives of stakeholders partici-

pate in the rule-making process. Furthermore, rule 301 invites interested parties to petition the Tax Commission to promulgate, amend, or repeal a rule. Such petitions must give the reason for making the request and include suggested language.

However, there are some perplexing policies and principles that affect rule making and that seem to restrain the STC from issuing manuals (the provisions of § 63-105A notwithstanding). Rules cannot merely repeat statutory language, and they should not go beyond the scope of the statutes (both of which are good). At the same time, the policy is that a rule cannot be as detailed as a procedure manual (which accounts for the innocuous nature of most—but not all—of the rules). On top of that, the STC cannot write anything in a manual that might be interpreted as “a binding expression of policy” that would affect the public (by causing counties to change the way they do things), because such things should be in statutes or rules. As a result, the STC feels seriously restrained from putting into writing guidelines and procedures that would help counties carry out the law better. As a result, the STC has had to abandon an assessor’s manual (see section 6.3). Happily however, the STC has found a few ways around this Catch-22 situation: As noted later, it has issued some useful personal property valuation guidelines, and some course materials contain information that normally would be found in a manual. Too often, however, the STC is faced with the choice of not providing needed advice or providing it orally to only those who ask for it. Neither is an effective and efficient communication strategy.

Recommendation 3-1: The STC should attempt to clarify with the Department of Administration, the Attorney General’s Office and the Legislature the extent to which it can offer informational materials for the guidance of assessors and other county officials. It should consider seeking specific authority to issue manuals with the understanding that compliance with all provisions of manuals is not mandatory (bearing in mind that manuals normally provide guidance on carrying out duties mandated by law or rule).

It should be possible in a manual to use disclaimers and other devices to identify clearly materials that are binding and materials that are merely advisory.

3.6 Conclusions

Except for the absence of a law mandating the disclosure of real property sales prices and terms, the Idaho legal framework for property tax administration seems well designed. The Tax Commission appears to be fulfilling its legal duties to the extent permitted by its political environment and its resources.

It also should be noted that the legislature has not neglected to address improving the administration of the property tax as it deals with tax policy and relief matters. An outstanding example of laws intended to improve assessment practices is § 63-314.

4. Local Assessor Perspectives

This section summarizes local assessment practices, CAMA systems, and perspectives on the role and performance of the Idaho State Tax Commission. As noted, there are forty-four county assessors. Collectively, they are responsible for assessing over 700,000 locally assessed parcels of real property and 20,000 personal property accounts.

As noted in 3.2 above, aside from agriculture and timberland, Idaho statutes call for property to be appraised based on its market value at its current use. Approximately 20% of properties are to be inspected each year so that all properties are inspected over a five-year period (interiors are generally not inspected). Properties are also inspected when a building permit is issued and often at time of sale (a laudable practice). As discussed in more depth in 7.1.2, the commission conducts annual ratio studies to measure local performance and may issue reappraisal orders if performance falls below standards. Assessors study the market and index values by various property strata, especially by property type and neighborhood, between reappraisals. They generally strive for a ratio between 95 and 100 percent. Actual levels of assessment tend to be slightly lower, but most are over 90 percent. There is a 50% homeowner's exemption, which makes property taxes in Idaho comparatively low for owner-occupied residences.

According to the IAAO's 1999 taxonomy study (not yet published), between 51 and 75 percent of Idaho assessors have digital cadastral maps and between 76 and 95 percent have computerized land and building records. Between 26 and 50 percent use computers in land valuation. Between 51 and 75 percent use computers in agricultural and commercial property valuation, and between 76 and 95 percent use computers in residential property valuation. Virtually all (between 96 and 100 percent) use computers to store sales data and make ratio studies.

Assessors generally rely on a market-adjusted cost approach for residential property and use the cost and income approaches in the valuation of commercial properties. Compared to other states, the sales comparison approach is not widely used in Idaho. Some assessors contract out commercial and industrial property appraisals. Some feel that the commission should provide help with larger industrial properties. Aside from the UAD and ProVal manuals and miscellaneous rules, guidelines, and other materials published by the Commission, there is no general appraisal manual, as noted above.

The assessment function, as well as performance monitoring, in Idaho is hampered by lack of a full-disclosure law. Assessors generally rely on a combination of Multiple Listing Service (MLS) data and sales questionnaires to obtain sales data. Many also ask for sales data on applications for the homeowner's exemption. To their credit, assessors have worked to obtain full disclosure legislation in the past, but have been unable to obtain legislative approval.

Recommendation 4-1: As appropriate, the STC and the Idaho Association of County Assessors should continue their efforts to implement a full disclosure law.

We realize that much hard work in this area has gone for naught, but as opportunities present themselves, Idaho assessing officials should continue to stress the importance of sales data in a modern assessment system and strive to obtain disclosure of sale price data at time of sales.

At least thirty-five other states have such laws. The IAAO *Standard on Ratio Studies* (1999) states as follows:

“The best sources of sales data are copies of deeds or real estate transfer affidavits containing the full consideration and other particulars of the sale. Assessing officers in jurisdictions without laws mandating full disclosure of sales data to assessing officials work under a severe handicap and should seek legislation that provides for such disclosure.”

4.1 CAMA Systems

The state began providing free computer support to the counties in 1978, at which time each county operated autonomously, many without meaningful automation. Currently there are thirty-five counties on the state’s Uniform Assessment Development (UAD) system. The system provides for data maintenance, appraisal, and assessment administration, including preparation of valuation notices. Appraisal capabilities, however, are largely limited to the cost approach, which has been based on the Oregon cost manual. The system contains no calibration tools for conducting market analyses and developing depreciation factors, market models, capitalization rates, and the like. UAD runs on AS/400 computers utilizing either character-based terminals or PCs running terminal emulation software (see 6.1 for more detail).

To address the need for a more modern CAMA package, the STC developed a request for proposals (RFP) and in 1996 selected the ProVal system (now a Manatron system). Approximately 15 counties use the ProVal system, which is PC-based and runs under Microsoft Windows generally using Rbase for its relational database management system (RDBMS), although more robust alternative are also supported, and are encouraged by the STC. Currently, ProVal implementations have been limited to CAMA functions only, with UAD or other software used for assessment- and tax-administration purposes. Other counties are planning to migrate to ProVal or have adopted a wait-and-see attitude. With its graphical user interface (GUI) and pop-up menus, the ProVal system can be more user-friendly than UAD, although some users complain of a cumbersome sequence in the navigation of its menus. ProVal also supports sketching and images and is easier to interface with GIS. It supports multiple year processing with users able to enter and update data from the previous, current, and future appraisal years. It also provides an audit history of changes to records. ProVal counties still use the assessment administration and personal property valuation sides of UAD.

Based on available documentation and comments by assessors, we judge the ProVal system to feature a capable, user-friendly cost system. Users are able to define various model types in which base rates are defined by building style, quality class, and floor level. The system uses Marshall and Swift cost data. Depreciation is indexed by age and condition and separate depreciation tables may be defined by improvement type. The land valuation module permits the user to define a wide variety of pricing schedules by neighborhood or neighborhood group. These may include a constant and a series of variable rates for various size increments that approximate land value curves. Site adjustments for water or golf frontage, excess traffic, and the like are not specifically provided for, although appraisers can specify adjustments as needed on an individual

property basis. In general, both the cost and land valuation schedules provide effectively for economy-of-scale adjustments and interpolation to smooth computed adjustments.

Unlike the UAD system, the ProVal system provides for the sales comparison and income approaches. However, in practice, both are difficult to implement. Actually, ProVal distinguishes between the “market-model approach” and the “sales comparison approach.” In the former, the user uses either multiple regression analysis (MRA) or feedback to calibrate a series of valuation tables that calibrate cost tables, although some adjustments may be omitted and others (e.g., those for yard improvements or seldom-occurring features) may continue to be cost-derived. Although this is theoretically fine, it means that the user must understand thoroughly the structure and formulas underlying the ProVal system. For example, does a quality class adjustment affect just the main living area, does it affect all basement and garage areas, and is it interactive with other building features? Calibration of the ProVal model structure would appear to require calibration using either feedback or nonlinear MRA, ruling out the simpler, additive MRA models usually preferred for residential properties. In addition, while ProVal provides for neighborhood adjustments, there is no discussion of how the system would provide for separate models by “market” or “economic” area. Finally, ProVal does not contain MRA or feedback, so that the user must download the required data items, build the model in a compatible format, and then enter the resulting coefficients into the ProVal tables. Given the power, user-friendliness, and reasonable cost of modern statistical packages (such as SPSS), we do not regard the interface with third party software to be as much of a deficiency as an advantage. However, we do not know whether the required download has been written and doubt that the basic required mathematical equation that the modeler would have to calibrate has been explicitly defined. Conceivably a power-user of ProVal could perform these functions, but it is far too much to expect each interested user county to do so on its own. Thus, while the ProVal system, like virtually any CAMA system, will support market-derived models, we conclude that it does not do so in a reasonably user-friendly manner.

The “sales comparison approach” finds and adjusts sales prices in a defined neighborhood to a subject property based on user-defined coefficients or factors. The candidate sales are weighted based on an assigned point system. Particularly when close comparables are available, the method would appear helpful in evaluating the accuracy of a value estimate based on one of the other approaches.

In keeping with good mass appraisal practice, ProVal maintains a separate database of sales with property characteristics frozen at time of sale. Although the user can enter an adjusted sale price and separate validation codes for appraisal and sales ratio purposes, the system appears not to support time-adjustment factor tables or the separation of time and personal property or other special adjustments (e.g., financing). Property characteristics for commercial sales must be entered manually.

The income approach module provides a rich variety of methods: overall rates, income multipliers, discounted cash flow analysis, and mortgage equity analysis. The system provides good functionality when appraising an individual property, but appears cumbersome for mass appraisal. For each individual property, the appraiser defines “income groups” based on occupancy and floor (versus maintaining a table to accomplish the same for all parcels at the same time). Each

income group is then assigned to a “model category” (apartment, office, motel, etc), which determines the required income and expense data to be entered. Both fixed and percentage (base plus overage) rents can be accommodated. The appraiser may enter reported or reconstructed figures, or both. When all data are entered, the appraiser selects an appropriate income valuation method and enters the required parameters (capitalization rate, gross rent multiplier, holding period, etc.). Discount rates may be developed by the built-up and band-of-investment methods, and income growth rates may be specified for use with discounted cash flow analysis and mortgage equity analysis. Note, however, that income parameters are specified at the individual parcel level. There appears to be no facility to aggregate property data at the parcel or income group level for mass appraisal analysis or to specify income parameter tables by model category. We conclude that the system is powerful from an individual property appraisal viewpoint but problematic for mass appraisal (some experienced appraisers may like it; others may find it too individual-parcel oriented and time-consuming).

Recommendation 4-2: The STC should consider how best to provide the real property appraisal modules now provided barely adequately by UAD and somewhat more effectively by ProVal.

As discussed, users highly value the improved cost system, since it is significantly easier to use, is likely at least as accurate, and is more credible. Further, the UAD system has no meaningful sales comparison or income approach capabilities. Over time, maintenance of a single appraisal system can be expected to help address the pressures of system maintenance and support, as well as facilitate training and field operations. Ideally the appraisal and assessment administration systems should be integrated.

Recommendation 4-3: The STC should develop more user-friendly sales comparison and income approach capabilities. This could involve modifications to the current ProVal system, augmentation of the UAD system, development of a separate module that would work from data extracted from ProVal and interfaced with UAD for valuation, or the procurement of a completely different system. If an approach involving incremental improvements rather than wholesale replacement is adopted, the initial emphasis should be placed on the sales comparison approach, where the need is greatest.

An incremental approach should, in fact be feasible, since one can envision writing a program to download a “flat” file from ProVal or UAD (one record per sale), from which models could be developed by means of a statistical package and stored in ProVal or UAD for application and valuation. The income approach, which would apply to more complex commercial property records, could be addressed in a second phase.

4.2 Other Assessor Perspectives

In addition to valuation and CAMA systems, assessors provided perspectives in a number of other areas. These included the general responsiveness of the STC to assessor concerns, assistance provided by consulting appraisers, education and training, administrative burdens, centrally assessed property values, ratio studies, salaries, and term limits. Assessors appear unanimous

that the supervising commissioner listens to their concerns and, as much as possible, is moving the agency in the right directions. Assessors are generally complementary of STC training and support and appreciative of the work of consulting appraisers (as in similar settings in other states, there are some inevitable personality conflicts and mixed reviews). Assessors are concerned about legislatively mandated burdens, for example, administration of the homeowner's exemption and property tax reduction program and of urban renewal programs. Assessors also appear to be unanimously frustrated by values for centrally assessed properties. They are miffed by recent intangibles legislation providing substantial reductions in values and feel that the Commission holds assessors to a higher standard than the Commission holds itself, claiming that the STC is too quick to reduce values for operating properties. However, they remain almost equally supportive of the STC's ratio study and equalization program, which they feel is competently and fairly administered and which they credit with helping to improve the quality of locally assessed values across the state.

Assessors are concerned about comparatively low salaries and pending term limits, which they fear may reduce general levels of professionalism and increase training needs.

Many of these concerns are explored in more detail in other sections of the report.

5. Management and Resources

Section 5 discusses the resources allocated to the property tax functions of the State Tax Commission and how the Commission manages those resources.

5.1 Funding

The resources provided to assessment agencies are a reflection of the political support for accurate and equitable assessments. The appropriation for the County Support Division of the STC in fiscal year 2000 was \$2,658,400, and \$2,779,700 was requested for fiscal year 2001. Allocating a pro-rata share of general and administrative appropriations to CSD implies that as much as \$3.9 million was allocated to central assessment and property tax supervision in fiscal year 2000 and \$4.5 million would be allocated in fiscal year 2001 if the STC's budget request were granted. The perception among the staff of the STC is that obtaining additional resources for property tax functions is unlikely. However, the question remains: Are current resources sufficient? Unfortunately, there are no workable theoretical models for determining the resource needs of an agency like the County Support Division of the STC. Consequently, in evaluating funding adequacy, we resorted to comparisons. A number of benchmarks can be used to evaluate the overall adequacy of a state supervisory agency's budget and staffing relative to the number of local assessment districts and relative to reliance on the property tax in the state. They are (1) supervisory budget as a percentage of total property taxes in the state and (2) supervisory budget per local assessment district, and (3) the ratio of jurisdictions per supervisory agency staff member.

The direct appropriation and the appropriation plus allocated indirect costs equate to about 0.31 percent and 0.45 percent, respectively of 1999 statewide property tax revenues. Current data are not available from other states. However, exhibit 5-1 presents comparative data for surrounding states from 1999 and 1992 surveys made by the International Association of Assessing Officers (IAAO) and from the US Bureau of the Census. Particularly at the national level, the benchmarks in exhibit 5-1 obscure differences among the states in the range of supervisory activities. Even so, they imply that Idaho and surrounding states spend relatively more on property tax supervision than is typical for all states. However, Idaho tends to spend relatively less than surrounding states (Montana is not comparable, because the state is largely responsible for assessment administration). This is noteworthy because the Oregon Department of Revenue provides a much greater level of appraisal support (it appraises industrial property), and Utah and Washington provide no computer support. In addition, Wyoming's state board of equalization is independent of its department of revenue and, hence, has a separate budget.

The fact that western states tend to spend proportionately more on property tax supervision than most states can be attributed to several factors: There is relatively less reliance on property taxes in the west. Living and other costs generally are higher. Population densities are lower, and distances that must be traveled are higher. Not least important, property tax supervisory agencies in the west tend to be more active in improving local assessment practices than many eastern states, which seriously neglect local assessment supervision and which may not be responsible for assessing railroads and utilities.

**Exhibit 5-1. Comparative Benchmarks on Supervisory Agency Budgets and Staffing
Idaho and Surrounding States**

State	No. Local Districts	Total Property Tax	State Agency Budget	State Agency Staff	Budget as % of Property Tax	Agency Budget per District	Districts per Staff Member
<i>1999 IAAO survey data (property tax data are for 1996)</i>							
Idaho	44	\$652,000,000	\$2,420,400	42	0.371	\$55,009	1.05
Oregon	36	2,332,000,000	n. a.	147	n. a.	n. a.	0.24
Utah	29	1,008,000,000	3,587,000	60	0.359	123,690	0.48
Washington	39	4,673,000,000	5,600,000	59	0.120	143,590	0.66
Wyoming	23	435,000,000	1,657,800	15	0.381	72,078	1.53
Minimum	15	412,000,000	150,000	2	0.003	170	0.24
Median	85	2,299,000,000	2,843,600	43	0.141	30,799	1.79
Maximum	1,845	23,262,000,000	39,500,000	566	0.551	306,153	299.00
<i>1992 IAAO survey data</i>							
Idaho	44	\$501,000,000	\$1,800,000	39	0.359	\$40,909	1.13
Oregon	36	2,550,000,000	18,300,000	150	0.718	508,333	0.24
Utah	29	795,000,000	2,883,500	61	0.363	99,431	0.48
Washington	39	3,100,000,000	6,485,900	56	0.209	166,306	0.70
Wyoming	23	553,000,000	3,731,700	17	0.675	162,249	1.35
Minimum	15				0.014	1,098	0.14
Median	85	1,652,000,000	2,400,000	46	0.140	24,941	2.03
Maximum	2,713				3.211	508,333	43.75

Notes: Delaware, the District of Columbia, Hawaii, Maryland, and Montana are excluded from analysis. 1999 district, budget, and staff data are from the 1999 IAAO Survey of State Property Tax Policies and Administrative Practices (publication forthcoming). Thirty-six respondents supplied staffing data, and thirty respondents supplied budget data. The 1992 data, including property tax levies, come from *Assessment Administration Practices the US and Canada* (IAAO 1992). Forty respondents supplied the requisite data.

CSD's appropriation (with administrative costs allocated pro-rata) is allocated approximately as follows: Technical Support Bureau, 46%; Centrally Assessed Property section, 15%; Research and Local Assessment section, 16%; and Locally Assessed Property section, 22 %. (The percentages do not sum to 100 because of rounding and because the sum of unit appropriations do not equal total appropriations, because total expenditures often exceed appropriations. The FY 2000 appropriation is \$39,386 less than total expenses.) As would be expected, personnel services account for the majority (77%) of the appropriation. Although the figures cannot be verified from budget documents, \$42,000 is budgeted for litigation and \$60,000 is budgeted for forms (the latter will be increased to \$85,000).

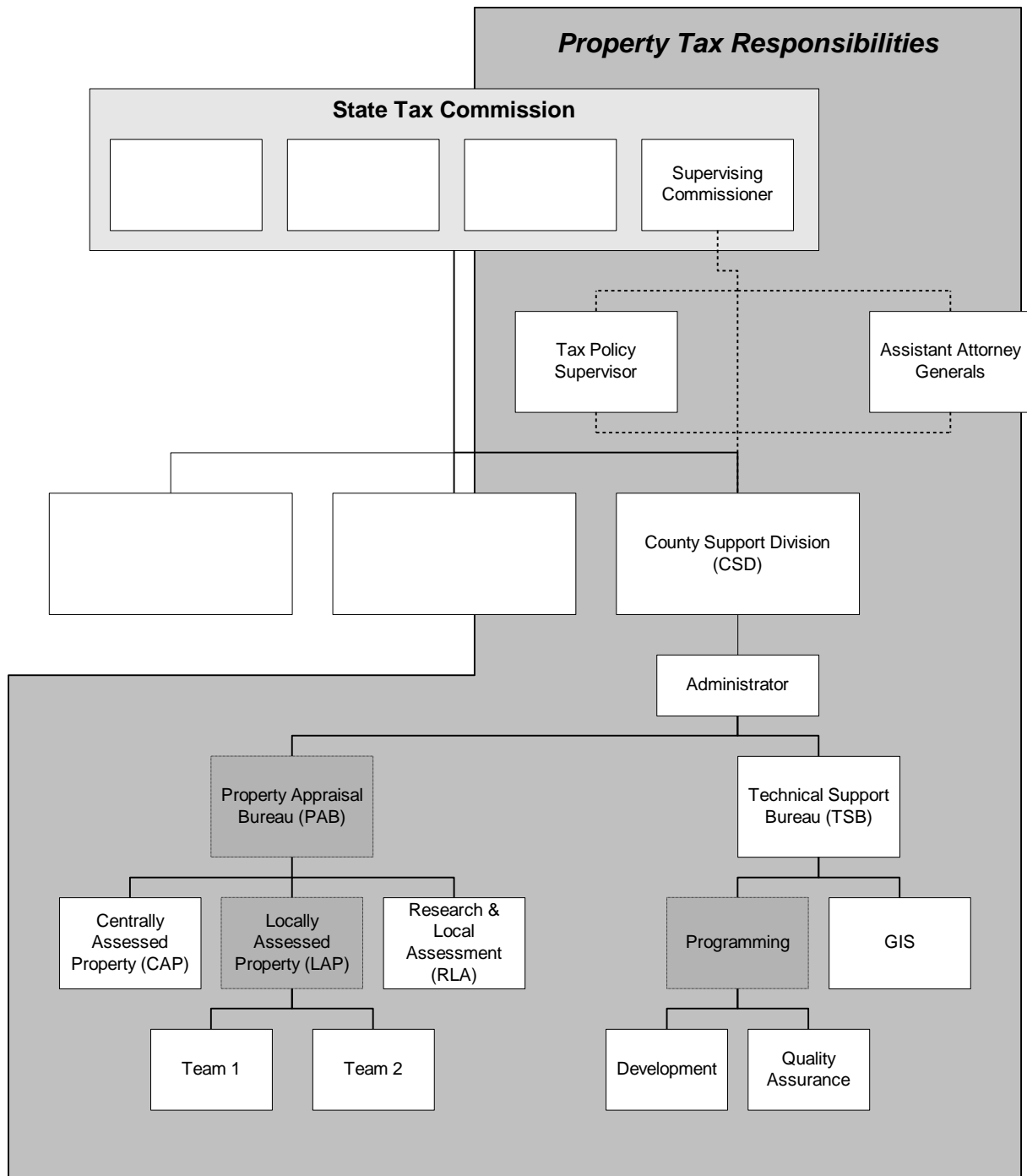
We conclude that funding and overall staffing levels may be adequate, but they certainly are not excessive. We agree with the general view that at least the heads of the CSD and the Tax Policy unit go from crisis to crisis because of limited resources. However, as discussed later, the CSD does not have the management systems in place that are needed to do cost accounting and benefit-cost analysis. As an example of the kinds of analyses that would be useful in evaluating performance and in developing budgets, the (fully burdened) expenditure of \$404,000 by the Centrally Assessed Property section results in about \$46.6 million in property tax revenues. That is expenditures are 0.9 percent of property tax revenues, which ratio compares favorably with the efficiency of local assessment, which appears to be about 1.6 percent of property tax revenues.

We note that § 63-112 authorizes the STC to charge for services requested in writing by a county assessor. This authority could be used to rationalize services provided by the CSD. Initially, the STC should attempt to estimate the costs of the services it provides. If these cost estimates could be paired with benefit measures, it might be possible to develop a framework for evaluating cost-effectiveness and for eventually developing charges for less critical services. Of course, any such revenues should be appropriately "credited" to the CSD (to counter the current view within the Commission that the CSD is less worthy because it produces no revenue).

5.2 Organization and Staffing

The Idaho State Tax Commission (STC) has four members appointed by the governor and confirmed by the senate. Their terms are for six years. Although the state is largely Republican, it is by law composed of two Democrats and two Republicans. The governor appoints one member chairman, who serves in this capacity at the governor's pleasure. Each commissioner has several responsibilities, including a major tax, and, collectively, they manage the operations of the Commission. They work full-time.

The Tax Commission has three divisions and a number of smaller units. Two components of the Commission have property tax functions: (1) the County Support Division and (2) the Tax Policy unit. See the following organization chart (organizational units without a head are indicated by boxes with dashed lines). The CSD also draws on the general services of the STC for human resource and financial services and on the Attorney General's Office for legal support.



The County Support Division (CSD) has thirty-nine positions (at least one was vacant during our review). An administrator heads it. It is divided into two bureaus: The Property Appraisal Bureau and the Technical Support Bureau. The division administrator heads the PAB, presumably as an economy measure, while the TSB has a chief. The Property Appraisal Bureau has the following units:

- Locally Assessed Property. The Locally Assessed Property section comprises eight consulting appraiser positions in two teams (two team leaders are included in the total). The team arrangement is new and is designed to improve teamwork. Formerly, there was a Boise-based coordinator. The team leaders estimate that they spend most of their time on management, leaving only 1/3 of their time for work with counties. Consulting appraisers are based throughout the state to reduce travel time to the counties they serve.
- Centrally Assessed Property. The Centrally Assessed Property section includes the section manager, four appraisers, and a technical specialist.
- Research and Local Assessment. The Research and Local Assessment section is responsible for all other property tax functions, including budget and levy limits, forest tax administration, assessor education, maintenance of a database used in tax policy, and development of valuation schedules.

The TSB provides computer support to county assessors and treasurers. In addition, it has geographic information system (GIS) and mapping assistance functions, plus property tax relief. There are ten programmers, three GIS specialists, and two involved with the property tax reduction and with sales data processing. Its internal structure includes a GIS and a programming section, which itself is subdivided into development and quality assurance areas. The entire technical support staff is based in Boise.

The Tax Policy unit addresses tax policy broadly. However, it performs several important property tax functions. It produces ratio studies jointly with the CSD. The head of the unit is active in promulgating the STC's policies and in providing training, including implementing budget and levy limits. He helps write decisions in appeals of operating property assessments, and he reviews informal appeals of property tax reduction applications. The unit borrows clerical and computing support from the County Support Division.

Because of a lack of measures of workloads and accomplishments, it is difficult to evaluate the adequacy of staffing for the STC's property tax functions beyond the benchmarks contained in exhibit 5-1.

Although we have no major concerns about the current organizational design (but see recommendations 6-2 and 7-3), the rationale for some of its features is not readily apparent. What is the distinction between bureaus and sections? Why does the PAB not have a head? Why is computer and mapping support in one bureau and appraisal support in another? Why is administrative support for some programs divided between the two bureaus? Answers to such questions were not readily apparent, and perhaps the CSD should review its organization as part of its strategic planning (see recommendation 5-1).

These questions are important because there are several areas in which business processes involve more than one unit, and communications and control of work can be problematic. These areas include ProVal system support where TSB is responsible for system installation and troubleshooting and where consulting appraisers are supposed to assist with mass appraisal applications. It would appear, however, that both groups dismiss some assistance requests by assessors

as the others' problem rather than working collaboratively to solve them. The TSB visualizes its support role as not embracing valuation assistance (indeed it has no valuation expertise on its staff), whereas consulting appraisers have traditionally focused on spreadsheet applications (although they recently have been trained in ProVal). Fundamentally, no one is in charge of the ratio studies that are so crucial to equalization and the distribution of state school aid (see recommendation 7-3 and related discussion in section 7). Consulting appraisers work with county assessors in screening sales and sometimes obtaining sales files, the TSB is responsible for computer processing, and the head of the tax policy unit is the chief user of the results. When something goes wrong, he lacks the authority to deal decisively with the problem. In a similar fashion, work related to the circuit breaker program and the budget limit program is divided between the tax policy unit and units of CSD. One dimension of these problems (which are discussed further in section 6.1) is that the TSB visualizes its role as primarily working with assessors, not providing software solutions to the CSD itself, as the STC has an Information Services section whose mission is to develop software solutions for the Commission. Issues such as these also should be addressed in the planning activities recommended in section 5.3.

5.3 Planning, Budgeting, and Control of Work

The Tax Commission has had a reputation for being *laissez faire* regarding local assessment practices. On occasion, it would make a “foray” into activism or enforcement and then retreat when resistance was encountered. The new supervising commissioner hopes to change that, and he has high expectations for increasing the effectiveness of the Commission within funding constraints by being innovative and by increasing efficiency as well. One “institutional” constraint is the perception that because the property tax does not produce revenue for the state, its needs are secondary. Although this perception is not uncommon, it is shortsighted. A lack of capacity on the part of local governments translates either to greater state expenditures or poorer local governance.

The appointment of a new commissioner provides the CSD with a window of opportunity to develop a clear vision of the role it should play in property tax administration in Idaho and to take the initiatives needed to realize that vision. Effective strategic planning provides the tools needed.

5.3.1 Planning

Commendably, the Tax Commission engages in strategic planning. It publishes its mission statement and goals, which were changed during a 1999 planning retreat (see box on the next page).

It is unclear how the goals specifically apply to the Commission's property tax functions or how it envisages implementing its plan, since strategies, concrete objectives, responsibility assignments, and deadlines appear not to be disseminated to staff. Moreover, there is little evidence of division and lower-level strategic planning. Consequently, strategic planning currently appears hollow. However, some units of the CSD, notably the TSB, engage in unit-level strategic planning to good advantage.

Recommendation 5-1: The STC in general and the CSD in particular should engage in more effective strategic planning.

Any of several strategic planning models could be used, but the main aims should be to increase participation in the planning effort, communicate key elements of the planning process and expectations to all the staff, and—most important—create a framework of mutual accountability for carrying out the plan. For each goal, specific strategies and measurable objectives should be identified. Management problems (such as those identified in this report) should be considered during the planning process. The persons responsible for achieving each objective should be identified, and deadlines should be set. The plan should be revisited periodically (approximately quarterly) and amended to reflect changing circumstances.

State Tax Commission Mission and Goals	
<i>Mission: To provide courteous, quality services and to administer the state’s tax laws in a fair, timely, and cost-effective manner to benefit Idaho and its citizens.</i>	
Current (1999) goals	Previous goals:
<ul style="list-style-type: none"> • Promote voluntary compliance with tax laws and improve enforcement efforts. • Continually improve services to taxpayers, maximize efficient use of resources, and promote fiscally responsible partnerships with stakeholders. • Support an environment that promotes a workforce that is both encouraged and empowered. 	<ul style="list-style-type: none"> • Promote voluntary compliance with tax laws. • Improve enforcement efforts. • Continually improve service. • Effectively use technology to improve operations. • Improve tax administration. • Develop a capable workforce that is both encouraged and empowered.

5.3.2 Budgeting

The STC uses object classification budgeting, and budget requests are based on the previous year’s appropriation. That is, annual budget requests present only the rationale for changes (generally increases) in the previous appropriation. Requests for additional spending are presented in prioritized narrative “decision units.” Although commendable, the decision units we reviewed presented little context for the requests, such as the problems that would be solved or any quantification of the benefits of the increased spending. Separate budgets are developed for each section and division. However, there are no program budget details, and budget requests have no clear link to plans.

Recommendation 5-2: At least in its internal budget preparations, the CSD should develop rationales for its appropriations that attempt to quantify the work that will

be accomplished and, to the extent possible, the benefits to the state and local governments that derive from that work.

5.3.3 Direction and Control of Work

Management of the staff of the CSD appears uneven. Of course, overall efforts to improve management are hampered by the current illness of the administrator, who has no formal second-in-command. The TSB enjoys a reputation for being well managed, and its staff exhibits esprit de corps. It monitors some of its work progress in terms of accomplishments, work outstanding, and estimates of inputs required to complete tasks.

The head of the RLA section currently is serving as acting administrator, he and other top management in the Division seem to have a reasonably congenial working relationship, and day-to-day problems appear to be addressed in a timely manner. However, there are several longstanding issues that have not been resolved to everyone's satisfaction.

As noted in section 5.2, management issues that require further efforts to resolve include increasing teamwork in the CAP section, ProVal installation and support, and processes that involve either or both of the TSB and the Property Tax Policy unit (specifically, sales data processing, property tax reduction program administration, and administration of budget limits). It would be desirable to explore ways to ensure that consulting appraiser resources are being effectively utilized.

The Tax Commission appears to take adequate efforts to ensure that staff is on the job when it should be. The CSD keeps a weekly schedule of where each staff member is expected to be every workday.

5.4 Legal Support

Section 63-103 gives the Tax Commission the authority to employ or retain counsel. As previously noted, the Commission currently draws upon the Attorney General's Office (AG) for legal support. The AG provides (1) day-to-day legal advice to the STC, (2) administrative review support (part of income tax administration, not property tax), (3) assistance with developing regulations and legislative proposals, and (4) litigation support. As noted in section 1.2.3, the AG does not see helping counties as its role—that belongs to county attorneys, although it will try to help county attorneys informally. Many states actively provide information on legal issues to local officials.

The AG provides its support on a contractual basis, and there is considerable satisfaction with the accessibility of the attorneys to the STC staff. However, the STC staff is not always satisfied with the pressures to avoid litigation that are imposed by the working relationship between the STC and the Attorney General's Office and the limited funds available to pursue litigation (the adequacy of the budget for such being in dispute). Without specific examples it is difficult to evaluate the dissatisfaction the STC staff sometimes feels, but lack of legal support seems to constrain the STC from active enforcement of laws.

However, the STC and its attorneys recently worked together to develop a creative strategy to force a recalcitrant county to comply with the reappraisal requirement by means of a “joint powers agreement” (see section 9.3). The STC is optimistic this approach will serve as a model for future enforcement initiatives.

6. Counseling and Assistance

As is common with other states, the Idaho State Tax Commission provides support to county assessors in a number of areas. As previously noted, the law specifically requires the STC to provide assistance in a number of areas. The main providers are the Technical Support Bureau and the consulting appraisers. Section 6.1 discusses computer support and other activities of the TSB. Section 6.2 discusses the assistance role of consulting appraisers, section 6.3 discusses the provision of reference works, and section 6.4 discusses training programs.

6.1 Computer Support

The STC, through the Technical Support Bureau of its County Support Division, provides computer support in a variety of forms to county assessors, treasurers, and (indirectly) others. The most obvious form of support is the computer programming and no-cost human assistance provided to the approximately thirty-five counties using the so-called Uniform Assessment Development (UAD) System for mass appraisal, assessment administration, and treasury purposes. Motivated in part by deficiencies in the appraisal aspects of UAD, and in part by a desire to better control development costs by using software developed by the private sector rather than in house, STC has also licensed and begun supporting a more capable appraisal package variously known as ProVal or the Manatron system, which has been introduced in approximately fifteen counties. Beyond these direct provisions of support, STC also provides computer-related support indirectly in a number of areas, including tax mapping, property-tax-reduction application processing/compliance monitoring, sales ratio analyses, and assistance/audit compliance support. Its support for internal STC programs that support counties indirectly is more limited.

6.1.1 UAD or AS/400 Support

The UAD system, which supports appraisal, tax policy administration, and treasury functions, is hosted on AS/400 machines located in each of the aforementioned thirty-five counties. STC also maintains two machines in Boise, from which all development, quality control, and support are performed. The UAD system appears to be uniquely well positioned to support the myriad tax policy divergences from ad valorem principles that legislatures everywhere are wont to make, although even this home-grown, easily customized system has encountered minor temporary glitches in the implementation of certain policies such as urban-renewal district administration. More serious problems arise in other areas, however. Its support for mass appraisal is essentially limited to the cost approach, which is based on a set of specifications and cost tables developed by the state of Oregon, and it is quite rudimentary by contemporary standards. Although it supports the retrieval of comparable sales essentially by means of an ad hoc user-specified query, it does not support their automated selection or adjustment based on a mathematical algorithm, as do some modern computer-assisted mass appraisal (CAMA) systems. It is also deficient in its support for the income and sales comparison (or MRA modeling) approaches to value. Even the cost model support is deficient in respect of assistance in calibrating the model. Support of personal property valuation is also based on the application of stored cost factors and depreciation allowances for managed inventories of reported personalty, without comparative analyses by reported levels of personalty, floor area ranges, SIC codes, or the like (we understand that users did not consider such analyses important in the design of the system).

In part because user support by telephone, fax, modem, and personal visits is free and effectively unlimited, there were few complaints elicited about the UAD documentation during our interviews with diverse local users. Nevertheless, it is clear that current personnel are stretched very thin providing support according to the currently free and unlimited model, and this will only get worse in the future as term limitations come into effect for local assessors. Almost inevitably, some system of metering service, especially for questions that could have been resolved through local initiative, will have to be considered. In the meantime it would seem advisable for resources to be devoted to enhancing the user documentation, which currently more resembles a cross between a programmer's manual and a run book for executing batch jobs than a user's manual. Some small steps in this direction have been taken with the preparation of 17 pages of documentation for the Uniform Assessment Tax Receipting Program, but approximately 1,000 pages remain of a nature that would be very off putting to a newly elected assessor or treasurer. Although on-line help is available, its adequacy as a substitute for a printed User's Manual is questionable in view of both the level of calls to TSB staff and the impossibility of taking it home to read.

The AS/400 is surrounded by misconceptions, especially on the part of personnel who use alternative systems in other counties. One belief is that the AS/400 platform is underpowered and obsolete. This is certainly not true in general, inasmuch as it is one of IBM's flagship products and remains the vehicle in which the company first introduces many of its technological breakthroughs. Also, despite its use of an uncommon programming language and a database management system embedded in its operating system, it possesses arguably the most capable relational database management system (RDBMS) available and offers greater protection from ineptitude induced disruption than any comparable system. The frustration some have expressed about the lack of a set of routine interfaces between local geographic information systems (GIS) and the UAD system lies less in technological issues than in institutional ones, as the recent GIS manual developed jointly by local assessors and STC personnel attempts to make clear. Yet the reality of the current system is not as idyllic as it might be.

Several concerns regarding the AS/400-related operations of TSB were generated during our limited review of this area. They include an apparently sub-optimal structuring of the data, a seemingly inordinate dependence on programmer assistance for the resolution of day-to-day system administration problems, and an unascertainable level of productivity from the programming and quality-control personnel.

Although the AS/400 is capable of being an outstanding RDBMS machine and of interfacing well with a GIS, the structure of the database underlying the UAD system appears not to have been designed to take advantage of all of its capabilities. It is obviously not in so-called standard fourth-normal form. Under the rules of data normalization, which ensure that the efficiency of accessing any particular element of data is maximized, there should be no repeating fields in any given record, such as deed1, deed2, tax district1, tax district2, and so forth. UAD practice is quite contrary to this. Currently available UAD database documentation suggests the system manages approximately 3,000 discrete fields of data, of which about half would be eliminated by reorganizing the structure of the database into fourth normal form, (in which case the multiple deeds, tax districts, etc. would each represent a separate record in separate tables related to the

master parcel record in question). Normalization would facilitate the process of satisfying many system-enhancement requests, such as the one now pending requesting that more than the present five deeds be made accessible to users, (although form-and-screen-design issues may still remain). It would also simplify the interface between the UAD system and any GIS a local jurisdiction may chose to implement. It is possible that some of the data have been deliberately denormalized for performance reasons, but in the absence of documentation on the issue it is impossible to say whether this is true in any particular case; certainly it cannot be universally true. Almost surely the data structure has simply been carried forward from designs developed for earlier system architectures that lacked the AS/400's RDBMS capabilities, such as IBM's System/36, and reflects constraints on the programming resources available to revise the system to take advantage of the new possibilities. Some would argue that processing efficiencies attach to the current design, which is not even in first normal form, but in fact much of the daily/weekly/monthly balancing processes that are currently being undertaken are necessary precisely because the data are not well structured and because, therefore, advantage has not been taken of the AS/400's ability to prevent transactions from being entered erroneously in the first place. Instead of using periodic balancing reports, UAD should avail itself of the AS/400's ability to use constraints, triggers, and transaction commit-or-rollback logic to perform all necessary edits at the time any given record is being created, updated, or deleted. The AS/400 architecture is optimized for such database processing; it has been 64-bit based since 1995, (something Intel will first achieve sometime in the next year), and therefore it has a flat addressing scheme for over 18 quintillion bytes of data. Further information on optimal design principles may be obtained from *AS/400 System Concepts & Architecture*, available online at the following internet site: www.as400.ibm.com/handbook/5486conarch.html, as well as the two volume set by Paul Conte, *Database Design and Programming for DB2/400*, published by 29th Street Press.

User dependence on programmer resources is a significant concern with the UAD system generally. One sort of undesirable dependence on programmers has already been mentioned in connection with the inordinate level of resources expended on help-desk support, which is provided on a rotating basis by the programming and quality-control staff. Even more troublesome is the literal dependence of local jurisdictions on ISTC programmers, who have recently had to spend weeks in the field programming reversals to recover from botched runs of routine batch-update programs. In general, the UAD system seems not to have been designed for use either by users who are inexperienced or by users who are potentially able to assume responsibility for satisfying their own ad hoc requests. Just as most SQL-based RDBM systems offer the potential of satisfying unanticipated user requests by means of various query tools, such as the Crystal Reports package used with the ProVal system, so too does the AS/400, although the tools are different. The AS/400 offers a number of similar tools, including Query/400, Query Manager/400, and the Inquiry facility of DFU (short for data file utility) that could be used by computer-literate users to generate reports and simple data extractions in response to unexpected needs without any programmer involvement. In the absence of the data normalization discussed above, these tools are not as easily used as they might be, since a user searching for deed XYZ or tax district ABC might have to look through all the various fields now maintained separately as Deed1, Deed2, ... District1, District2, etc., as described above. (GIS and other software seeking to interface to UAD would suffer the same problems, although in neither case are the problems insurmountable.) Despite the availability of this possibility, there is no mention of this or similar tools in the system documentation, leading some to question whether the TSB staff is doing all it

could to minimize the dependency of the county assessor and treasurer staff personnel on programmer-level STC resources. Here again, the transience of the oral compared to the written word, noted in connection with Recommendation 3-1, is evident, inasmuch as no mention was made during our interviews of the prior training offered to counties in the usage and capabilities of some of these tools.

The productivity/efficiency/effectiveness of the TSB staff cannot be adequately measured from the data available. The personnel shown on the organization chart in programmer and quality assurance roles are in fact involved in lower-skilled help/support roles much of the time. Although logs are maintained of bug reports and the programming backlog, it appears not to be possible to determine how much time was actually expended on given system enhancements or on supporting various jurisdictions in various kinds of capacities. (Management should at least have reports tabulating data on workloads generated by each county, on programmer productivity, and on efforts that could have been obviated by other means. Ideally these data would be even more detailed and would be available for pivot-table based analyses so that multiple combinations of criteria could be specified.) As noted elsewhere, time spent in support of other property tax-related system needs of the STC appears to have been extremely minimal.

Recommendation 6-1: The STC should institute a mechanism for tracking the use of professional programmer time spent on various activities with a view to measuring the costs of providing various kinds of support to various jurisdictions relative to the time spent designing, programming and testing various system enhancements, fixing programming errors, and other tasks.

As noted in section 5.3, the aim is to provide CSD management with the data it needs for planning, budgeting, and performance analysis.

Recommendation 6-2: The STC should consider revising its staffing arrangements to ensure that help/support functions do not impinge upon design, programming, and testing duties.

In most professional software shops these are quite distinct roles, and the current arrangement suggests that too much emphasis may be placed on short-term needs and not enough on the long term.

Nothing said in criticism of the UAD system bears on the commitment and dedication of the personnel involved with it. The almost universal rapport between the county and TSB personnel we observed interacting in connection with it was impressive, as was the evident commitment on the part of various TSB personnel to do the best possible job for their perceived customers. It may also be useful to note that the UAD system was a major advance over the systems it replaced, and it undoubtedly served well for many years thereafter, even if the state of the art has advanced considerably more than it has.

6.1.2 ProVal CAMA Systems

In recognition of the deficiencies of the mass appraisal capabilities of the UAD, and in hopes of obtaining some of the efficiencies inherent in private enterprise, a CAMA request for proposals was solicited and ProVal was selected as a result of that process (ProVal now is a division of Manatron, a governmental software provider). Unfortunately, in order to minimize costs, the procurement specified that STC personnel would provide all first line support, so the benefits of metered or market-disciplined support were not obtained. The early implementation experience with the new system has been mixed. On the positive side, users have been pleased with the greatly augmented support it provides for the customary mass appraisal methodologies and for the graphical user interface, familiar to users of computers in other contexts. On the other hand, some users have experienced exactly the kinds of system failures that are inherent in client server configurations, especially underpowered ones, and that an AS/400 architecture specifically guards against. This has led to an appropriate rethinking of the conditions under which the STC will provide support to the counties wishing to adopt the ProVal system. Although in the past essentially any system on which the software could conceivably be run by a local government was supported, the new conditionality for support includes a more robust hardware specification and an investment in a more crash-proof RDBMS than ProVal's minimum requirement. These steps are to be commended. It may even be appropriate to extend them to encompass a plan, in the nature of a service contract between a local jurisdiction and the STC (or a vendor), projecting the levels of support required by the jurisdiction over the planned implementation period. Such a pseudo contract need not initially be fee-based, but the imposition of some metering mechanism and the development of a cost-containment consciousness would seem advisable.

This mode of thinking applies with equal force to the STC as to the local jurisdictions. We failed to find evidence that this sort of planning documentation was developed prior to the implementation of the ProVal system at the state level. Although cognizant officials in conversation recognize the problem in connection with subsequent issues, such as GIS implementation, there does not appear to be an institutionalized mechanism for anticipating, budgeting for, and documenting such resource demands even now. Although budget request documents appropriately contain "decision items" in the nature of the needed approach, the level of implementation planning and documentation could profitably be increased.

Recommendation 6-3: The STC should plan more comprehensively before implementing major new projects, and should document expected timelines/milestones, task dependencies, resource requirements, personnel commitments, associated opportunity costs, and the like.

Recommendation 6-4: The STC should insist, as a condition of providing STC support, that local jurisdictions plan comprehensively before implementing major projects such as the ProVal CAMA implementation, and should document expected timelines/milestones, task dependencies, resource requirements, personnel commitments, associated opportunity costs, and the like. Support requirements beyond reasonable or mutually agreed levels may be subject to alternate arrangements, perhaps including outsourcing or negotiated cost recovery.

6.1.3 Other Indirect and Internal Support

Computer support is also provided in the areas of mapping/GIS, processing/auditing applications for property tax reductions (PTRs), performing the sales ratio analysis for assessment quality control purposes, and generally supporting a variety of internal activities, including local assistance, auditing local compliance with revaluation/inspection requirements, and roll/levy monitoring. In general, the Technical Support Bureau, which provides support for the UAD and ProVal systems previously discussed, also devotes a lesser amount of its resources to the first named areas, while the remaining functions seem to have been left to shift for themselves. Prioritization of TSB development and support activity for the UAD system is formalized with routine input received from client users during special sessions of conferences of the state assessors and treasurers (separately), but there does not seem to be a good mechanism for allocating the scarce TSB resources overall, and there is some danger, especially given the prior history of the bureau, that it could lose focus on the overall mission of the STC and focus too narrowly on its local clientele.

Support for tax code mapping and GIS entails a variety of activities on the part of STC. Both paper maps (about 1000 per year) and electronic boundary files, along with related base map files, are made available to the counties. Consideration has appropriately been given to modernizing the distribution channels to include Internet access (or down loading) for these products, although approval for this course of action has not yet been obtained. Guidance on the procurement of GIS technology has been provided through a cooperative endeavor with local assessors, and considerations that must be addressed before the development of GIS/property tax interfaces have been outlined in the same document. Personnel located in TSB also provide education to local personnel in mapping-related matters routinely. Quite appropriately, given its other higher priority commitments and the absence of either a legislative mandate or a clear business case for development, TSB has been proceeding with due deliberation in respect of GIS. Although GIS can prove of immense value locally, and potentially also in a computer assisted mass appraisal (CAMA) environment, it is not clear that either the UAD or the ProVal systems would be able to take advantage of the benefits that GISs can offer. Especially given local variations in GIS procurement and development intentions, it would seem that STC has wisely refrained from assuming a missionary role in these endeavors.

Verification of the eligibility of applicants for property tax reductions is performed by the STC, and systems have been developed to allow STC personnel to do original data entry of forms from jurisdictions not part of the UAD system and hence unable to transfer locally created files. A newly developed system enables such data entry to be done in Microsoft Access, both internally at the STC and externally by localities who are not UAD users. There is no compelling evidence that it will be much used by localities, and its development in Access rather than on the AS/400 appears to have been motivated as much by personnel/recruiting constraints as by analysis/design considerations. The system links via tape exchange to one external source, the Maryland Social Security office, although curiously it does not link electronically to income tax records under the purview of STC, much less to veterans administration or railroad retirement records. It does not verify calculations, but does generate form letters. Although perhaps not perfectly designed, the system evinces a welcome attention to the systemic needs of the Commission, not just those of the county clients. It is not clear to what extent the STC has assumed a primary versus a confir-

matory responsibility in this exercise, but that is an issue not addressed here. For other taxpayer benefit programs, the work performed by STC personnel is mostly oriented to statistical purposes rather than verification.

Support is also provided for the sales analysis or ratio-study program, which attempts to ensure that local assessments are acceptably close to required market levels and conform to other accuracy standards. Computer support for this classic function of an oversight agency is somewhat different in Idaho than elsewhere due to the absence of a law requiring full disclosure of sales prices. Whereas in most oversight agencies firm measures would be taken to ensure that sales were fully reported to the state, accurately coded for usability, and matched appropriately to the local assessment, so as to minimize any possibility for local officials to suborn the process and obtain a more favorable but less accurate ratio-study result, Idaho must more or less diffidently rely on what local assessors submit. Sales are keyed locally and received at STC via transfer from UAD systems or via PC diskette from other jurisdictions. STC clerical personnel question the validity of the data entry for unusual ratios, and professional personnel compute a rich variety of statistics in conformity with professional standards. Apart from the issue of not following up to eliminate possibilities for corrupting the results of the study (which is explained by the need to keep the goodwill of the local assessors in order to have access to any sales information at all) the study appears to be very competently done.

Computer support for and from the technical-assistance or consulting-appraiser program in the locally assessed property (LAP) section appears substantially adequate although somewhat haphazard. The UAD system, in addition to providing a means for counties to enter sales data for monitoring appraisal performance, as discussed above, also tracks dates and appraisers who have purportedly re-inspected properties to comply with state requirements. It would be a conceptually simple matter to tabulate this data to enable state personnel to monitor whether production rates are sufficient to accomplish the task in the available time and likely to be realistic rather than fictitious. STC personnel report, however, that such an application would not be developed for fear of alienating the primary clients, i.e. the local assessors. Interestingly, the written documentation for UAD seems to indicate that such a capability already exists. Certainly the LAP managers have been able to get data from somewhere, which they are managing on personally developed worksheets. LAP personnel also seem to be adept at developing analytical worksheets (Excel macros) to assist counties to perform tasks that UAD cannot do adequately, such as calibrating cost tables, deriving land tables, extracting market depreciation rates, and the like. LAP consulting appraisers have begun receiving training in ProVal and in Crystal Reports, a product used with ProVal and other RDBMSs for creating ad hoc reports and data extracts. The intention seems to be that LAP personnel will begin to assume some of the current TSB support role for local users of ProVal, which is quite sensible, although a more coherent planning process would have provided more assurance of continuity.

Computer support for the levy rate and budget review process is barely adequate, and the process seems cumbersome and characterized by much redundant keyboarding of information that appears to be available in other systems, especially UAD, under the purview of the STC. Two sorts of computer support are available: a set of programs written in FoxPro for another purpose (i.e. tax policy analysis) and a set of Lotus 123 worksheets. The FoxPro programs do not catch data inconsistencies at the time that the data are being entered, but rather only after all the data are

entered and are being analyzed. The 123 worksheets do incorporate consistency checks to alert the user to the entry of inconsistent data, but do not provide all the logical tests required to confirm that the relevant taxing districts have conformed to all the statutory requirements. Certain important elements of the process involve a potentially error-prone manual search of voluminous documents in a compressed time frame. A six-month attempt to re-engineer this subsystem was never implemented for reasons that are not clear. This situation suggests a lack of attention to what might be called information engineering or high-level system analysis and design on the part of the STC in its approach to meeting its programmatic responsibilities.

Computer support for the centrally assessed properties section is being re-engineered as part of a Commission-wide project to implement a GenTax system, and so was not reviewed under this project. In view of earlier implementation difficulties with its Property Tax System (PTS), as well as other unspecified transition difficulties, CAP personnel expressed concern that adequate quality control steps be taken. Reports that the two systems will be run in parallel for the first year, in concert with other quality assurance measures, should help to allay these concerns.

6.1.4 Conclusions

The computer support available to the County Support Division of STC appears to derive principally from its Technical Support Bureau and the initiatives of computer-savvy personnel in its other operating areas, including Locally Assessed Properties, Sales Analysis, and Levy Monitoring, together with the private contractors the latter may be able to engage from time to time. The STC Information Technology/Information Services operations support other parts of the mission of the commission, and reportedly are currently engaged in the implementation of a new GenTax system. Apart from some trivial assistance in the conversion of data files from one tape format to another (now no longer done) and the maintenance of a network for printer serving and the like, the central IT/IS operation of STC has reportedly provided essentially no support to CSD. The support available for the administration of the property tax, while not yet in a crisis stage, bears management attention in respect of two areas of concern: the efficiency of support to UAD counties and the effectiveness of support to the Division as a whole.

Efficiency is a difficult issue to address when demands are not subject to a market/pricing mechanism. TSB is generally well regarded by the local personnel who use its services in a quasi help-desk capacity, and all of the local personnel reacted negatively to any suggestion that there may be a need to meter or partially reimburse such support. Nevertheless the resources of the bureau are stretched very thin now in the programming, quality assurance and help areas, and will likely not be sufficient to continue to provide even the same level of service, much less engage in any new development or enhancement programming, if there is a large turnover of local personnel, as may result from term-limitations for local assessors. Investing in improved documentation before that happens would be a good tactic to help prepare for this eventuality, along with a number of other measures that have already been implemented, including systems for prioritizing enhancement requests and for tracking and monitoring help requests and bug reports. Strategically, STC may want to review the cost effectiveness of its current policy of supporting two very different local systems. This should certainly be done once enough experience has been gained with the early implementing counties so that startup issues can be separated from ongoing support needs.

The effectiveness of the current computer support is limited in two significant ways: the UAD system does not appear to have been designed to take maximum advantage of the capabilities inherent in the AS/400 architecture, and the UAD system, along with all the systems reviewed, lacks adequate documentation underlying its design. Absent needs-analysis and system-design documentation, the effectiveness of the systems is very problematic to judge. Furthermore, the ability to maintain the systems is impaired, especially in the event of an unanticipated departure of key personnel. Finally, there is a likelihood (accompanied by some evidence), that the design of the systems is sub optimal.

A common way of approaching problems with computer effectiveness, especially when top management's technical expertise is not high, is to procure commercially available software (such as ProVal) that can be readily adapted to meet a specific need in a limited domain. The problem with the approach is that it may lead to sub optimizations when the problem domains are not well isolated. ProVal, for example, although evidently superior to UAD for CAMA purposes, does not run on an AS/400 and so is limited with respect to its interface to other systems, particularly for assessment administration, as well as its stability. To the extent that other commercial products can be found to satisfy the requirements of all the necessary problem domains, however, this can be a viable approach and is sometimes optimal.

Our recommended approach is to engage in enough information engineering to identify the needs of the division and then to develop a plan for meeting them, either through enhancement / development or through procurement. Whichever course is to be adopted, the prior analysis will serve as an invaluable foundation for the procurement or the development, and will often suggest which is more likely to be optimal. The cliché "analysis paralysis" summarizes the danger inherent in this approach, but a limited-term effort, say three to six months, perhaps taking advantage of the potential availability of qualified personnel from a sister division of STC, would almost certainly be beneficial to the commission in deciding how to proceed and in bolstering support for the decision. (Alternatively, the services of a consultant with expertise in property tax/assessment/CAMA systems design and AS/400 architectures could be obtained.) Local opinions can certainly be found in favor of a unified statewide system that would provide adequate functionality, and a unified system would also facilitate further development, local training, and the like. Whether a unified system is a necessary goal, and if so whether it should be centered around one of the systems currently in place, is beyond our ability to recommend at this time, but answers to such questions should arise naturally and cogently from the recommended process. Certainly there is a significant body of local opinion that the AS/400 and/or the UAD system ought to be retired. On the other side of the coin there is also some concern about how the requirements were drafted that led to the ProVal procurement. Insofar as doubts are raised about the AS/400 as a platform, such reservations are simply misguided. Insofar as the capabilities of UAD are concerned, the matter is far less clear. UAD, being custom tailored to the peculiarities of Idaho law, will not be easily replaced for assessment- and tax-administration purposes. Whether it can be cost effectively redesigned and augmented to provide the level of CAMA support associated with ProVal, whether the latter can be cost effectively augmented to provide the missing UAD functionality, or whether the best course is some third alternative is not yet clear.

Recommendation 6-5: The STC should comprehensively review whether to continue to support two disparate systems or to phase out one or both of them in favor of another alternative.

Recommendation 6-6: The STC should engage in enough high-level analysis and documentation of the needs and resources of the CSD and the counties that the issues of maintaining two different systems and meeting the other needs of the STC may be addressed in a systematic and cogent way. This effort should include documentation of the design of the current systems. We leave open whether the analysis should be done internally, perhaps with the help of a consultant (possibly also internal), or largely outsourced. If it is outsourced, we would nevertheless recommend that internal capacity be developed to assist in its development, to ensure that the documents are maintained, and to ensure that a coherent needs-analysis/system design perspective continues to be brought to bear during the development of systems for internal STC/CSD use.

Recommendation 6-7: The STC should consider whether a reorganization of the division's computer support operation may be warranted. In name, history, and practice, TSB seems to have been concerned almost exclusively with providing support to "its" local clientele, to the detriment of the larger computer support needs associated with the administration of the property tax by the STC generally.

It is not clear that the fault for this situation lies with TSB management any more than with the rest of the ISTC management. Although TSB personnel are quick to point out their authorization under the Idaho Code and their taxpayer funding, this hardly distinguishes them from the commission itself. In any event, the need is not to levy blame but rather to ensure effective teamwork in all necessary areas.

6.2 Consulting Appraisers

As previously noted, the Tax Commission has eight consulting appraiser positions (including one current vacancy), two of which have management responsibilities. They have a dual role and spend most of their time in the field either teaching or directly helping individual assessors and in monitoring their performance (see section 7.2). Unquestionably, the assessors who draw upon their assistance appreciate it. Most assessors understand the consulting appraisers' role as monitors as well.

As discussed further in 7.2, it is an open question whether the consulting appraisers are being used in a way that gives the "greatest bang for the buck." Evaluating the benefit of consulting appraisers is intrinsically difficult by the independent nature of their work, the cursory nature of activity reporting to the STC, and the absence of formal evaluations by assessors. This is not to say that we doubt that their efforts are beneficial, and we are hesitant to recommend an onerous performance evaluation system.

6.3 Reference Works

As discussed in section 1.2.3, a common function of supervisory agencies is to provide local governments with reference works. Also as noted, the STC operates under policy if not resource constraints that prevent it from providing extensive assistance in this way. However, it does maintain and circulate “unofficial” copies of its rules and a compilation of property tax laws. The STC has produced a ratio study manual and property tax reduction (circuit breaker) manual.

In conjunction with assessors, the STC also develops and issues some well-done personal property valuation guidelines. They include various equipment cost schedules, cost trend factors, depreciation schedules, and composite trend and depreciation factors. The guidelines appear unusually well supported, increasing their credibility.

The STC has begun publishing a series of pamphlets styled as “educational guides.” Their audience is taxpayers, and they are written in a question-and-answer format. Topics include forest land taxation, operating property, personal property valuation, property tax for homeowners, and property tax reduction.

Specific areas that should be addressed because of limited guidance in rules and problems with administration include the reappraisal plans required under rule 314 and assigning property category codes under rule 327.

Recommendation 6-8: The STC should develop detailed guidance on reappraisal programs, property use categorization (although perhaps only after the categories have been rationalized), and similar complex and technical matters.

The aversion to using the printed word to communicate about property taxes seems to extend to such things as the STC’S web page and its annual reports, which would seem only to satisfy statutory mandates only minimally. Most useful information is confined to memoranda that receive only limited circulation.

6.4 Training

Pursuant to §63-105A(17), the STC has established a training and certification program. A member of the staff serves as education director, and other members of the staff assist with program administration, curriculum development, and instruction. In addition to assessment personnel, the STC has offered programs for treasurers. Course offerings include courses in a fixed curriculum and offerings designed to meet a broad spectrum of current needs. Offerings include short seminars and weeklong courses. Some present concepts, others focus on applications. Some educational offerings have been developed internally and some by other organizations, including the IAAO. Most of the program offerings are conducted in winter and summer schools. However, the STC will offer special-purpose seminars. The STC attempts to recover some of the costs of its offerings by charging tuition fees, although the amounts charged appear barely adequate to cover direct marginal costs. It accepts enrollees from other states. Total enrollments have exceeded 300 in recent years.

Overall, the program compares favorably with those offered by other states, particularly when one considers that Idaho is a “small” state (in terms of assessment districts). The range of relevant offerings is exceptional. The course materials we inspected are well done. An attempt is made to offer courses in convenient locations throughout the state and to keep costs affordable.

6.5 Forms

As noted, the law gives the STC general authority to prescribe forms (§§ 63-105(4) and 63-105A(5)). It sometimes requires the STC to furnish copies of the forms to assessors at its expense (for example, § 63-219). Included are valuation assessment notices and property tax notices. Section 63-219 also requires the STC to prescribe forms related to rolls. It gives assessors the right to request alternate forms. The statutes also require the STC to prescribe other forms, such as declarations that manufactured homes are real property or are personal property.

7. Monitoring and Analysis

Section 7 evaluates monitoring and analysis activities of the Idaho State Tax Commission. Its primary activities are its annual ratio studies (section 7.1) and informal oversight by consulting appraisers (7.2), tax policy analysis, (7.3), and budget and levy rate approval (7.4).

7.1 Ratio Studies

Idaho Code §63-109 and §63-315 authorize and set guidelines for the State Tax Commission to perform ratio studies for equalization and school funding purposes. STC rule 328 sets forth assessment level compliance standards for the equalization study, and rule 250 contains rules for the school district study. Both studies are to be conducted annually and in accordance with IAAO standards on ratio studies.

7.1.1 Equalization Study

The annual equalization study compares assessments for the current year against sales that occurred over a one-year period from October 1 of the previous year to September 30 of the current year. For example, the 1999 study used assessments as of January 1, 1999 compared with sales from October 1, 1998 through September 30, 1999. When there are insufficient sales over the one-year period, the STC may extend the sales period or add appraisals. It may also delete (“thin”) sales as necessary to achieve representativeness.

When adequate sales are available, the commission will determine assessment levels for seven classes of property: improved urban residential, unimproved urban residential, improved rural residential, unimproved rural residential, commercial, condominium, and manufactured housing. Some of these categories may be further divided if adequate sales permit. Currently the Commission reports results for categories with as few as three sales but only considers a category potentially out of compliance if there are at least five sales. Sales used in the study are to be adjusted as necessary to January 1, of the year under study.

For each category with adequate sales, a 95% confidence interval for the assessment level, as measured by the mean if the ratios are normally distributed and the median if not, must include either 90% or 110%. If the requirement is not met, the STC conducts a follow-up study using assessments from the following year (e.g., 2000) when available. If the follow-up study again fails to achieve compliance, commission staff may recommend that the Board of Equalization issue an equalization order. Although the STC will usually equalize based on the current year’s ratio study results, if it has reason to doubt the representativeness of either the initial or follow-up study, it may delay implementation of the order until studies from two consecutive years confirm noncompliance.

In addition, the STC maintains advisory standards consistent with IAAO standards for the coefficient of dispersion (COD) and price-related differential (PRD), two primary measures of assessment uniformity. CODs should not exceed 15% for residential property and 20% for other property. PRDs from 0.98 to 1.03 are considered satisfactory.

7.1.2 School Study

The school district study is used to adjust assessed values to market values in order to determine the full cash value of each school district for purposes of state aid. The time period for sales used in the school study is identical to that in the equalization study. Property categories are grouped into three “ratio study designations” for purposes of the study: residential, commercial, and manufactured homes. An assessment level is computed for each designation, and, if a 90 percent confidence interval about the computed level does not include 100%, market value for the class is estimated by dividing the assessed value by the computed central tendency measure. If the 90% confidence interval includes 100% (or if there are fewer than five sales), the assessed value of the designated class is deemed to be the full market value. Estimated market values for the various designations are then totaled to produce the full market value of the school district.

Measures of central tendency used in the study are as follows:

- The weighted mean is used if the distribution of ratios is normal and the price-related differential (PRD) is between 0.98 and 1.03.
- The un-weighted mean is used if the distribution is normal and the PRD is less than 0.98 or greater than 1.03.
- The median is used if the distribution is not normal.

7.1.3 Analysis and Recommendations

Ratio study procedures are generally sound. The administrative rules noted above spell out the main features of the study, and the STC issues an annual Ratio Study Manual that clearly explains the process, along with providing definitions, explanations, and examples of the various statistics used in the studies. The ratio study coordinator also conducts annual ratio study workshops. Time adjustments appear well done and add credibility. In 1999, the equalization study found eight categories in six counties out of compliance. Assessors regard the equalization process as fair and objective.

We have two concerns with current procedures: the supply of data to the STC and sample sizes. Any ratio study begins with and depends on sales data, and it is important to ensure that all sales have been accounted for and properly screened for purposes of the study. Since Idaho is not a full-disclosure state and no sales declaration is filed at the time of sale, the STC depends on assessors to collect and screen sales used in ratio studies. Assessors generally obtain sales information from the MLS or from sales questionnaires (the ratio study manual contains a sample sales verification letter). Many ask for sale price information on homeowner exemption forms, which are mailed at time of sale.

Based on information obtained, assessors screen sales as usable or not usable for purposes of the study and provide those considered usable to consulting appraisers, who review the sales, sometimes make adjustments, and develop time-adjustments. Counties then send the usable sales to the STC on tape or diskette once a year. However, the STC never receives an inventory of all

sales, so that it is unable to determine the percentage found usable or review those that were excluded (consulting appraisers may provide some such up-front review).

Recommendation 7-1: Counties should provide all sales electronically to the STC.

Although we realize that the Boise office does not have the resources to review sales comprehensively, having all sales would provide the opportunity to better audit or at least spot check sales processing as resources permit (consulting appraisers should continue to provide primary reviews). In addition, the STC could statistically monitor the percentage of sales coded as usable by property type and check for unusual patterns.

This recommendation as well as recommendation 7-4 would require the STC to develop file transfer rules, resolve ambiguities in property categories (see section 3.3), and develop a better set of usability codes than now exists.

Our other significant concern is with the number of usable sales available for the study. In large counties, there are more than enough sales in major classes of property. However, for smaller counties and for non-residential categories in general, samples sizes are generally small and often inadequate. The ratio study manual emphasizes the importance of adequate samples and annual ratio study reports express continued concerns over this critical area. Unfortunately, sales cannot be fabricated and expanding samples sizes is easier said than done. The Commission does sometimes add older sales to studies to increase sample sizes.

Recommendation 7-2: Consider using two or three years of sales in ratio studies, at least for commercial properties.

An advantage of current methodology is that most sales follow the assessment date, thus ensuring independence of assessments and sales prices. Older sales would not enjoy the same independence. Nevertheless, unless assessors set assessments based on sale price (we believe that most Idaho assessors do not), older sales can effectively bolster sample size and there are various methods available to help monitor “sales chasing.” We also note that the Commission will look at two years of results before considering a final equalization decision. Still, use of larger samples would reduce confidence intervals and permit earlier decisions based on expanded information. In all, we recommend that the Commission consider pilot testing the use of two or three years of sales for commercial properties in both its equalization and school district ratio studies.

There is room for a number of miscellaneous improvements in ratio studies, some that would recognize technical advances reflected in the new IAAO *Standard on Ratio Studies* (1999), such as enhanced methods of detecting outliers and testing normality. One minor flaw in existing rule 250 (which is being corrected) is the use of the weighted mean when the PRD is between 0.98 and 1.03 and the mean when it is not (both measures assume a normal distribution). When the PRD lies outside of 0.98 to 1.03, price-related biases are indicated, which only the weighted mean can capture. The greater the biases, the greater the relative advantage of the weighted mean in reflecting differential assessment levels for low and high values properties. Thus, use of the two statistics should actually be reversed (or some other approach used).

As mentioned in the discussion of organization and staffing (5.2), despite its critical importance, no one in the STC has formally been assigned responsibility for the ratio study, and the function operates on overly limited resources. The ratio study coordinator has no statistical or appraisal assistance. The Technical Support Bureau supports production runs and provides clerical assistance in obtaining sales data from counties and consulting assessors, but support for program modifications or development is more problematic, as programming resources are devoted more toward county support. Sales ratio programs require periodic updates to maintain currency and continued credibility.

Recommendation 7-3: The Commission should formally appoint someone in charge of the ratio study and ensure stronger programming and technical support for the ratio study program.

Finally, there are some categories of property that simply are not studied as part of the ratio study, notably industrial and personal property. While such properties are difficult to study and include in the ratio study, and while adequate resources to do so are simply not available at the present time, they should not be forgotten. Studying such properties would stand to improve assessment practices in these areas and further improve estimated market values in school studies. Other states employ performance audit techniques to study property types for which sufficient sales typically are not available or for which different valuation rules apply (such as forest and agricultural land).

7.2 Consulting Appraisers

The eyes and ears of the STC are the consulting appraisers. Most effective supervisory agencies have similar field personnel. As is common, consulting appraisers wear white and black hats. That is, they provide technical assistance when they are wearing their white hat (section 6.2). When they collect data for ratio studies, evaluate performance, investigate complaints, and the like, they wear their black hats. There is an inherent conflict in such roles. Some states attempt to deal with this by having specialists, but this also has disadvantages (cost, communications).

Consulting appraisers work where they are needed most (if invited). As with any service, it is difficult to evaluate their output objectively. However, they contribute to good relationships between the STC and counties.

Although the state receives abstracts of rolls, it considers obtaining digital copies politically impossible. Any files the state gets for system testing purposes cannot be used for any other purpose. Consequently, consulting appraisers are expected to be sufficiently familiar with operations in their counties to know what is going on.

Recommendation 7-4: The STC should develop a program to acquire digital copies of rolls. It should explore whether existing legislative authority under §§ 63-105A, 63-219, and other statutes is sufficient, and it should begin developing the necessary rules. At the same time, it should develop the necessary file specifications for counties not on UAD and any necessary programs for those under UAD.

Having access to digital copies of rolls should not be viewed as a lack of trust of assessors but as a normal auditing tool that would enable the STC to identify apparent problems with property categorization, facilitate administration of budget limits, monitor reappraisal programs, improve its ratio studies, and make additional tax policy analyses. With access to digital copies of rolls, consulting appraisers could work more effectively, because they would not have to be physically present in an assessor's office.

As noted, consulting appraisers formerly reported to a coordinator in Boise. Now there are two teams, each with a working team leader, who coordinate with each other and who report to CSD management. Each appraiser has an assigned set of counties to assist and monitor. In addition, appraisers with specialized skills offer their services wherever they are needed. Nevertheless, consulting appraisers often operate independently with considerable control over their agendas. Given the constraints on using published materials in Idaho to communicate with assessors, it is difficult to assess whether consulting appraisers as a group are effective in getting the STC's messages out (if it has any) or in reporting to management in a meaningful way what they are learning in the field.

Recommendation 7-5: Management should evaluate its communications needs with assessors (in both directions) and the role consulting appraisers should play in this regard. We recommend that CSD consider establishing a more formal reporting system of hours of service to a county, accomplishments, and problems.

The goal should be to ensure that management obtains meaningful information about accomplishments and their costs (in staff time) while not over-burdening consulting appraisers with reporting requirements. Frequent, short oral reports may be sufficient, at least initially. Consideration should be given to obtaining feedback from counties. The aim, over time, would be to target interventions where the benefits would be greatest, rather than where assessors merely want to acquire free services or where consulting appraisers like to work.

Although the STC makes ratio studies, it does not make formal performance audits. However, it has the power to investigate complaints. As with evaluating the contributions of consulting appraisers, consideration should be given to having consulting appraisers make a short, structured evaluation of the practices and procedures of the county assessors that they work with.

7.3 Tax Policy Analysis

As previously noted, the State Tax Commission has a Tax Policy unit. This is commendable, because most property tax supervisory areas completely neglect this crucial area of property tax administration. The unit's activities focus on the practical needs of the STC. The tax policy supervisor collaborates closely with members of the CSD in analyzing assessment performance based on ratio studies and on fiscal developments based on data in the Commission's property tax model, a database (which is maintained by a member of the RLA section). He chairs the Commission's Property Tax Rules Committee, and he assists with education and with general problem solving.

7.4 Budget and Levy Rate Approval

Legislation and rules have been promulgated (some effective now and some to take effect in future years) to ensure that budgets and tax rates not exceed certain amounts and that they not increase from prior years' amounts by more than has been found acceptable as a matter of public policy. There is a plethora of limitations and of attendant conditionality for their implementation and possible override. STC personnel are charged with monitoring the budget and rate setting processes of localities, including counties, cities, school districts, and special districts, to ensure that the results conform to legal requirements. This effort, although somewhat cumbersome, highly seasonal, and fairly dependent on the availability of a key staff member, seems to be performed reasonably effectively although perhaps not very efficiently. In the past, abstracts summarizing values by category were received electronically, although data from A2 forms showing value by district were hand entered; now all such data have to be keyed. (In fact, they are keyed twice to help catch mistakes.) We note with approval that the limits have been the subject of training sessions for local personnel at their conferences, that the instructional materials appear to have been well conceived, and that efforts are underway to fine tune the process via the development of certain rules (viz. 803) and forms (viz. L2) that should serve to somewhat minimize the extent to which the process depends upon the specialized expertise of the current key STC personnel involved in this matter. We mention elsewhere our concerns over the software development process in support of this (and other) internal matters.

8. Operating Property Assessment

8.1 Overview

The Centrally Assessed Property (CAP) section of the Property Appraisal Bureau is responsible for the valuation of approximately 418 utility, transportation, and telecommunications businesses operating in the state. The staff consists of a section manager (who also makes appraisals), four appraisers, and a technical specialist.

The Idaho State Tax Commission's statutory authority to assess "operating properties" is found in Code Title 63, Chapter 4. Like most locally assessed properties, operating properties are to be assessed at market value as determined by applicable statutes and rules adopted by the STC. The rules of the Commission have the full force and effect of law and, by rule, operating properties are to be assessed by the "unit method," in which a system value is determined and apportioned to Idaho depending on the percentage of property value with situs in Idaho. The unit approach is widely accepted and used by approximately 40 states in assessing operating properties doing business in multiple states or counties. Commission rule 405.01 states:

"The unit method of valuation is preferred for valuing a railroad or public utility when the individual assets function collectively, are operated under one ownership and one management, are interdependent, and the property would be expected to trade in the marketplace as a unit. Under the unit method, the value of the tangible and intangible property is equal to the value of the going concern. The market value of the unit shall be referred to as the system value. For interstate property, allocation factors shall be used to determine what part of the system value is in Idaho."

Issues involved in the assessment of operating property in Idaho include: the valuation time frame; valuation methods, particularly as these relate to separation of tangible and intangible values; valuation accuracy; interaction with company representatives; the formal hearing process; the role of the counties; staff training and expertise; and the potential role of outside experts. These issues are addressed in what follows.

8.2 Time Frame

The assessment calendar provides a very short time frame for the appraisal, review, and hearing process for operating properties. Companies are to file annual reports with the STC by April 30 of each year (staff stated that they still receive several requests for extensions), which allows only 5-6 weeks for staff to prepare appraisals, including internal reviews. Appraisal notices must be mailed by the second week in June. By the first week of July, staff must meet with taxpayers, conduct informal appeals, and notify both taxpayers and counties of determinations. Formal hearings are conducted in August. These tight time frames put an extraordinary burden on staff and allow insufficient time for substantive internal reviews and informal reviews with taxpayers. Internal reviews are largely limited to cursory reviews for formatting, computations, and glaring errors. Similarly, appraisers and management have insufficient time to make evaluations and decisions on taxpayer complaints and claims during the informal review process. These time

constraints have caused both internal and external relationships to become strained (see also 8.6 below).

Recommendation 8-1: Seek to extend the time frame for conducting appraisals and informal reviews.

One possibility is to propose legislation to change the filing date for annual reports to April 1. The STC might also see if there is benefit to conform its filing deadlines to neighboring states. The information required by each state is similar and thus should not put any undue burden on taxpayers.

8.3 Valuation and Apportionment

CAP staff must determine systems values and, under legislation and by rule, deduct the estimated value of intangible property values to arrive at the tangible value of operating property.

8.3.1 Approaches to Value

All three approaches (market, income, and cost) are commonly used in the valuation of operating properties, with the market taking the form of a “stock-and-debt” approach when applied to operating companies. Although computed, the staff places little weight on this approach. The staff believes the prohibition on derivatives of the direct capitalization approach (see below) includes the stock and debt approach.

The income approach is perhaps the most effective of the three approaches in the valuation of operating properties, since it looks to the actual income-generating ability of companies. The income approach can take one of two general forms. One is direct capitalization, in which current income is capitalized to present value based on price/earnings ratios observed in the market. The second is “indirect” or “yield” capitalization techniques in which the income stream is projected over a holding period and capitalized based on appropriate discount rates built up from the cost of capital and risk premiums. Common manifestations of indirect capitalization for operating properties are annuity capitalization techniques and “discounted cash flow” (DCF) models.

A recent rule change prohibits the Commission from using the direct capitalization approach or derivatives thereof that capture direct market relationships in the appraisal process, which the staff interprets as extending to the stock-and-debt approach. Thus, the staff feels they are precluded from using comparatively straightforward direct capitalization and stock-and-debt methods, and they currently rely largely on annuity capitalization (DCF models are used for certain properties) and the cost approach. The latter employs historical cost less depreciation (HCLD) for rate regulated industries and replacement or reproduction cost less depreciation (RCLD) for unregulated industries. The most problematic aspect of the cost approach is determination of depreciation, particularly functional (technological) obsolescence. However, the cost approach values only the “bricks and mortar,” thus precluding any intangibles-related problems from arising.

Recommendation 8-2: Implement audits of taxpayer information.

The valuation process, of course, depends on the accuracy of reported data. As with any credible tax, the commission should conduct periodic audits to ensure that reported information is reliable and that values are thus fair among similar taxpayers. This is particularly important for taxpayers electing methods A or B for determining the intangibles exemption (see below). CAP must be able to ensure that the claimed exemptions are based upon valid data and have been computed using sound finance and appraisal theory. We were unable to determine whether the Commission has the legislative authority to conduct such audits. If not, the Commission should seek such authority. The Commission should consider funding a senior appraiser or comparable level position to direct and conduct the audit program. We also understand that the legislature will need to approve and fund such a position and audit program.

8.3.2 Intangibles

Although intangibles are not easily defined, they can be viewed as representing all value that cannot be seen or touched, that is, value other than land, buildings, and tangible personal property. Some intangibles, such as stocks and bonds, are simply rights to tangible property. Others are separable from tangible property. Examples include franchises and licenses and types of “intellectual” property, such as copyrights and patents. Still others, such as goodwill, represent neither rights in nor are separable from tangible property.

Operating property taxpayers claim to have sought the intangibles exemption on equity criteria, arguing that locally assessed property values do not include intangibles. However, we note that, just as with centrally assessed properties, the market and direct income approaches capture the value of some intangibles at the local level. Although a “pure” application of the cost approach would not capture the value of such intangibles, a market-adjusted cost approach would.

In any case, pursuant to legislation and current rules adopted in 1998, the following intangible personal property is exempt from taxation (those preceded with ** were added effective for the 1999 tax year):

- *Capital stock and bonds.*
- *The deposits in national banks, state banks, and savings and loan associations.*
- *Shares and accounts of savings and loan associations, credit unions or associations organized under the laws of the state of Idaho for the purpose of accumulating the savings and funds of their members and lending the same to their members.*
- ***Goodwill is the expectation of continued public patronage of a business. Goodwill is the ability of a business to generate income in excess of a normal rate due to such things as superior managerial skills, superior market position, favorable community and customer reputation and high employee morale.*
- ***Customer lists are proprietary lists containing information about a business enterprise’s customers.*

- ***Contracts and contract rights* are enforceable agreements, which establish mutual rights and responsibilities, and rights created under such agreements
- ***Patents* are grants from the government conveying and securing the exclusive right to make, use and sell inventions.
- ***Trademarks* are marks of authenticity, through which products of particular manufacturers or vendible commodities of particular merchants may be distinguished from those of others.
- ***Custom computer programs* as defined in section 63-3616, Idaho Code.
- ***Copyrights* are rights granted to the author or originator of literary or artistic productions, by which he or she is invested with the sole and exclusive privilege of making, publishing or selling copies for a specified time.
- ***Trade secrets* are formulas, patterns, compilations, programs, devices, methods, techniques or processes, deriving independent economic values from not being generally known by other persons who can obtain economic values from disclosure or use. Trade secrets are the subjects of efforts that are reasonable to maintain secrecy.
- ***Franchises* are special privileges.
- ***Licenses* are permissions to do acts, which are not allowed without such permissions.
- ***Rights-of-way, which are possessory only and not accompanied by title,* are easements by which grantees acquire only the rights to pass over or to access for installation or maintenance, without acquiring exclusive use of the rights-of-way.

Implementation of the intangibles exemption has been problematic for both the commission and some taxpayers, since many of the listed intangibles have no separable or identifiable market value. To this point, the Commission has relied on taxpayers to identify and determine intangible values. Thus taxpayers are faced with the task of identifying their intangible property, estimating a value, and then determining what evidence to present to the commission staff (such as appraisals, supporting documentation, etc). Staff has indicated that the most difficult area currently relates to the exemption of “contracts and contract rights,” which are roughly analogous to leases of ordinary real estate.

Of course, some taxpayers claim exemption for certain items while other similarly situated taxpayers do not, and the amounts claimed can vary widely as a percentage of total system value. Staff stated that some taxpayers are claiming additional intangible exemptions for the 2000 assessment year that were not claimed in 1999. As taxpayers claim additional intangible property exemptions now and in the future, the Commission finds itself in the position of determining what is legitimately excluded, what is a reasonable value, and how much variation can be tolerated among taxpayers.

A future complication is that statutes and rules allow *each taxpayer* the right to elect one of the following three methods for exclusion of exempt intangible personal property from its taxable value (if no election is made, the STC can do so):

- Method A is the method by which the value of exempt intangible personal property is excluded from the value of operating property by subtracting the market value of exempt intangible personal property from the market value of the operating property at the *system* level.
- Method B is the method by which the value of exempt intangible personal property is excluded from the value of operating property by subtracting the market value of exempt intangible personal property from the market value of the operating property at the *state* level.
- Method C is the method by which the value of exempt intangible personal property is excluded from the value of operating property by using valuation models which value only the nonexempt assets.

Staff stated that Method A has been the choice elected by both taxpayers and the commission if no election of methods was made. Method A is based on the theory that if you determine a unitary value and deduct the fair market value of the intangible property, the result will be the fair market value of the remaining property

Method B is potentially an administrative nightmare. The location or situs of the intangible property would have to be in Idaho. Situs is often a difficult issue when trying to determine where intangible property exists; for example, where do goodwill, franchises, or computer programs installed on networks exist?

Method C implies use of the cost approach, which tends to exclude the listed intangibles. Staff confirms that this is their understanding as well. Some in the appraisal community have taken the position that some applications of indirect capitalization could also fall under method C.

We regard the current situation as a quagmire that will only grow worse. As more companies seek additional exemptions, values can be expected to decline further and equity among companies to deteriorate further. Although staff stated that it has not yet become a problem, the option of the taxpayer to choose one of three methods to arrive at the value of intangibles could be particularly difficult administratively. In addition, we see the possibility of costly and protracted litigation regarding intangibles issues (already this is the primary issue in discussions with local counsel).

Two other western states recently adopted intangibles legislation: Utah and Washington. Over the past several years, the Utah State Tax Commission (USTC) has experienced significant, protracted litigation in this area. As is becoming the case in Idaho, the commission found itself in the position of determining if intangibles claimed by taxpayers were valid and properly valued. Discussions with the USTC staff indicated that there were significant differences in items

and amounts claimed and that the entire issue was fraught with controversy. In an attempt to help resolve the situation, the Utah Office of Legislative Research and General Counsel contracted for *A Review of Centrally Assessed Property Tax Issues* (by professors Lawrence C. Walters, J. Michael Pinegar, and James S. Schalheim), which was published in December, 1997. The authors reached the following conclusions with respect to intangibles:

- “A careful review of finance theory as applied to corporate valuation shows that there is no generally agreed upon method for identifying and isolating intangible value from the enterprise value.”
- “Adjustment methods which start from unit value generally have a substantial *ad hoc* component, and have little or no foundation in financial theory.”
- “The only certain way to avoid taxing intangible property is to abandon the market value standard and use reproduction cost.”

Based on its experiences and the findings of the report, the Utah state legislature attempted to remedy the situation by passing legislation effective for the 1998 assessment year providing that only intangibles that can be sold separate and apart from the unit can be deducted. The USTC has taken the position that this provision of the statutes will apply only to intangibles that are actually booked on the financial statements. Adjustments for booked intangibles in approaches other than the cost approach are made by applying a ratio of the market value of the approach to the book value of the total assets (market value/book value) and applying that ratio to the book value of the intangible asset. This has generally improved the situation although some areas of disagreement remain.

The state of Washington also had intangibles exemption legislation passed that was effective for the 1998 tax assessment year. The Washington Department of Revenue (DOR) has not experienced the same level of litigation that has occurred in Utah. Prior to the intangibles exemption, the Washington DOR routinely considered direct capitalization in the income approach as well as the traditional stock and debt approach in the market approach.

The Washington DOR has implemented this exemption by asking centrally assessed taxpayers to report booked intangible personal property. Additionally, the Washington DOR has continued to use the three approaches to value within its appraisal practice, reconciling the indications to a conclusion of value.

A statutory note attached to the legislation requires the DOR to submit a report to the legislature, by December 1, 2000, outlining the tax shifts, tax losses, and any litigation resulting from the act.

Recommendation 8-3: Consider legislation that would mandate use of the cost approach for all operating properties. Alternatively, the STC should consider a model providing for the deduction of booked intangibles using “market value to book value” ratios for determining assessed values.

Although the cost approach normally produces the lowest values for operating properties, it affords a common valuation yardstick that effectively eliminates the intended intangibles from all companies equally. Further, it is known and administratively feasible quantity (although problems of estimating functional obsolescence should not be taken lightly). Under the current system, it is likely that innovative applications of methods A and B will ultimately result in many values that are less than cost approach values.

Recommendation 8-4: If a better policy solution is not found or if recommendation 8-3 is not accepted, the Commission should seek legislation to eliminate method B.

As discussed, the method is particularly problematic and it appears that neither the CAP staff nor any taxpayer regard it as a viable method.

Recommendation 8-5: If legislation mandating the use of the cost approach is not adopted, Commission staff should not feel precluded from placing appropriate reliance on the stock and debt method. The prohibition of the direct capitalization method should not extend to the use of and reliance on the stock and debt approach.

Recommendation 8-6: Unless and until the intangibles issue is resolved (by legislation mandating use of the cost approach), the Commission staff should keep records of the impact of the intangibles exemption each year.

We are aware of the limitations that the Commission faces in gathering the information, however the utility of the information would appear to justify facing the difficulties. The reports should include sufficient detail to identify types of industries and/or individual taxpayers and specific intangibles claimed and allowed. These reports should be distributed to centrally assessed taxpayers to put them on notice of the types of intangibles being claimed and allowed by the Commission. For planning purposes the Commission should also attempt to make estimates of the impact of the intangibles exemption in future years based on the best information available to them (largely historical trends as more experience is gained).

8.3.3 Allocation and Apportionment

Allocation is the important process of deciding how much of the system value, once determined, should be allocated to Idaho and apportioned to each county and taxing district therein. The Commission has historically used the allocation factors recommended by the Western States Association of Tax Administrators for the purposes of allocating value to Idaho. These allocation factors have not been adopted by statute or rule, with the exception of those applicable to private railcars, which have been adopted by rule. Apportionment is the process of apportioning values for centrally assessed properties among taxing jurisdictions.

System values determined by each state have become a point of comparison among states and taxpayers alike. Often both taxpayer's representatives and state employees find themselves under considerable pressure, whether direct or indirect, to manipulate system values. One such method

of manipulation is to adjust the allocation factors to compensate for changes in system values. For example, a system value could be lowered but offset by a higher allocation factor without substantially changing the tax consequences. Conversely, the system value could be raised and the allocation factor lowered, again without appreciably changing the tax consequences. Such manipulation can lead to questions of credibility in the tax structure and inconsistencies among companies in the same state, and thus should be avoided.

Apportionment is important to counties and other taxing units as it determines the portion of Idaho value assigned to each. In 1997 the STC initiated a new Property Tax System (PTS) for apportioning values to the various taxing jurisdictions. Unfortunately, that program was not adequately tested and contained errors that caused considerable disruptions before being repaired. Although the PTS system appears now to be working correctly, the STC is currently migrating to another new systems (known as CATS). To avoid similar disruptions to those experienced previously, it is important that the new system be thoroughly tested before implementation. We understand that the STC plans to run both systems in parallel for the 2001 assessment year before implementing the new system for the 2002 year.

Pursuant to § 63-405, the Commission apportions values within Idaho among taxing authorities based on information reported by taxpayers, who are required to allocate assets based on their location or situs in the state. The Commission produces maps that taxpayers can utilize for allocation purposes. The Commission charges for these maps, which creates a disincentive for taxpayers to update apportionment information.

Recommendation 8-7: Propose legislation to adopt uniform allocation procedures (except for private railcars which are already covered by rule).

Recommendation 8-8: Thoroughly test the new apportionment system before implementation and provide tax area maps to affected taxpayers for free as they are updated.

8.4 County Assessor Perspectives

County assessors that we interviewed expressed consistent frustration with operating property values. Part of this dissatisfaction is due to declines in the operating property tax base in recent years while locally assessed values have continued to climb steadily. A history of operating property values since 1980 (see table below) shows that they generally increased from 1980 to 1997, but declined in 1998 and 1999. As a percentage of total net taxable values, operating property increased from 7.06% in 1980 to 8.89% in 1989. Beginning in 1990, a gradual decline occurred eventually, reaching 5.83% in 1999.

Year	Operating Property Value	Net Taxable Market Value	% Operating Property is of Net Value
1980	1,630,343,987	23,089,355,653	7.06%

Year	Operating Property Value	Net Taxable Market Value	% Operating Property is of Net Value
1981	1,784,923,667	23,215,533,515	7.69%
1982	1,930,458,588	24,530,915,310	7.87%
1983	1,828,778,765	23,188,499,529	7.89%
1984	1,881,554,164	24,281,088,502	7.75%
1985	1,918,490,062	24,995,983,842	7.68%
1986	2,000,765,960	25,129,681,628	7.96%
1987	2,006,215,107	25,117,260,285	7.99%
1988	2,203,546,278	25,364,904,535	8.69%
1989	2,307,824,399	25,957,028,463	8.89%
1990	2,373,508,113	27,283,385,643	8.70%
1991	2,432,439,292	29,564,586,687	8.23%
1992	2,523,172,507	31,508,830,864	8.01%
1993	2,737,522,891	34,531,928,150	7.93%
1994	3,016,357,631	38,350,899,563	7.87%
1995	3,026,925,406	43,839,862,440	6.90%
1996	3,411,699,278	48,481,013,887	7.04%
1997	3,564,268,954	52,768,858,327	6.75%
1998	3,521,457,067	55,496,564,717	6.35%
1999	3,421,334,143	58,651,594,077	5.83%

Declines in values in 1998 and 1999 are primarily attributable to the following:

- The change in the private railcar allocation formula, which resulted in an approximate 28% decrease in statewide railcar values.
- Improved reporting of private carline mileage by the short line railroads.
- Most importantly, intangibles legislation. Counties noted that 1) the Commission accurately estimated the total dollar impact of the intangibles exemptions for 1999, and 2) approximately 40% of eligible taxpayers made claims for intangible exemptions in 1999. The counties concluded the impact of the intangibles exemption would be much greater in the future and that the Commission estimates were misleading because the future dollar impact was not adequately disclosed. Commission personnel stated the estimated impact of the intangibles exemption for 1999 was not based on 100% participation by the taxpayers and was never intended to be an accurate estimate of the impact in future years, only for 1999. They did concede that the assumptions used in their projections could have been disclosed somewhat better.

Another source of concern is fluctuations in the apportionments of operating property values. A number of factors may contribute to such fluctuations. Differing rates of population growth could account for changes in telephone corporation and water company values. The railroad

apportionment formula in the law has a net ton mile factor and a station revenue factor, which inherently would be subject to fluctuation. A similar situation exists with railcar companies. A related concern is the mathematical precision of the PTS system that calculates the apportionments. Although differences probably are due to rounding, the sum of the apportionments often does not equal the system value.

Moreover, assessors believe the commission holds them to a higher standard than it holds itself. While the counties are subject to ratio studies to determine their levels of assessment, the centrally assessed property section has no such review. The counties perceive that all industry has to do is appeal their assessment and they get a reduction—the Commission being unwilling or unable to litigate.

Counties did not attribute problems to a lack of desire or ability on the part of CAP staff, but to the lack of a litigation budget and any sort of commitment on the part of the legislature to fund such a budget.

In response to these events and perceptions, the Idaho Association of County Assessors (IACA) began raising dues to establish a fund for research, litigation, or any other avenue the IACA may wish to pursue to improve the situation. The fund was initially used to hire a consultant employed by the Utah Association of Counties.

In response to the concerns of the county tax assessors, CAP staff has tried to provide education to counties on how operating property values are determined (the classes are open to other participants including taxpayers). The following classes were offered:

- Summer of 1998 - short railroad assessment presentation was made at the Assessors Conference.
- 1998 STC Winter School - railroad assessment "class." Three assessors attended.
- 1999 STC Summer School - railroad assessment "class." Of six students in the class, two were assessors.

Staff also stated that for the past three years they have offered to conduct on-site operating property valuation classes in any interested counties, but none expressed interest. In addition, staff initiated an "Adopt an Assessor" program by contacting each assessor and inviting them to be part of the valuation process from start to finish, again with no takers.

8.5 Taxpayer Perspectives and Informal Hearings

In contrast to county assessors, taxpayers interviewed generally expressed satisfaction with the operation of the Commission. They expressed a desire for stability and predictability regarding their taxes and their relationship with the commission.

They believe the counties sometimes unfairly targeted the Commission regarding operating property values. It was conceded that the courses sponsored by the Commission to educate the

counties had not been as successful as hoped, but they suggested that additional meetings be held as one strategy to alleviate county anxieties over operating property values.

One area of concern regarded meetings with CAP staff scheduled for the fourth week of June. It was felt that staff were reluctant to make appraisal changes at this level due to pressures from management and/or counties. Staff did concede that they seldom made changes at this stage for other than data or computational corrections unless they felt there was a very compelling reason for the adjustment.

Concern was also expressed regarding the informal settlement procedures that occur after the fourth week of June but before formal hearings before the Commission. Taxpayers complained that there does not seem to be any notice or guidelines on how settlement discussions are to be conducted. Who should the taxpayer contact, who can they expect to meet or confer with at each level of management, and how will decisions be rendered?

Interviews with Commission staff indicated that the CAP section manager can authorize settlements of up to \$1,000,000, and the division administrator can authorize settlement amounts up to \$2,000,000. However, we found no evidence of written guidelines until settlement amounts reach \$3,000,000 (which are not very clear).

Lack of sufficiently clear procedures creates stress and difficulties for both taxpayers and staff. On several occasions, staff felt that upper management made decisions without their input. Sometimes they feel strongly that upper management has adopted a position on an issue that is contrary to good appraisal practice and the best interests of the Commission without them ever having an opportunity to express their opinion. On the other hand, taxpayers felt that the informal settlement process worked better when they could negotiate exclusively with management.

Recommendation 8-9: Develop procedures for the informal settlement process and notify taxpayers of their options by letter accompanying amended appraisals mailed around the first Monday of July.

Recommendation 8-10: Authorize the CAP section to make informal settlements based on the amount of money at risk and obtain staff input before making settlements involving appraisal issues. Any settlements should be documented and taxpayer assent should be recorded to preclude the possibility of litigation after settlement has been reached.

8.6 Hearings

Current statutes provide only a two-week window in August for the Board of Equalization to hear operating property appeals. This tight time frame imposes great restraints on both staff and taxpayers. In addition, current procedures do not require taxpayers to file preliminary briefs or documents prior to hearings. This leads to situations where staff and staff attorneys feel blindsided by issues not raised previously. Questions of fairness aside, this practice is not conducive to the Board being able to make balanced, proper decisions.

Another issue of controversy involves the standing of assessors and outside parties at the Board of Equalization hearings. Historically county assessors have never participated in the hearings other than as observers. Now that assessors are pursuing a more active role with respect to operating property, a question of importance is whether they can provide evidence, introduce testimony, and produce or examine witnesses. No one knows because no assessor or any other third party has ever tried to participate in this manner before.

Recommendation 8-11: The Commission should adopt procedures requiring the taxpayers to file, if not a preliminary brief, at least a statement of the issues with a brief synopsis of the argument(s) at least one week before Board of Equalization hearings. If the Commission cannot adopt such a procedure on its own authority, a rule and/or a statutory change should be pursued.

Recommendation 8-12: The Commission should adopt procedures clarifying the participation of assessors, their representatives, and other interested parties in the Board of Equalization hearings.

8.7 Education and Training

As can be seen, the valuation of operating property is a complex area, requiring proper education and training. We believe that all levels of the Commission, including staff, the commissioners, the supervising commissioner, and staff attorneys would benefit from additional training. Some specific opportunities are listed below.

- The Western States Association of Tax Administrators' (WSATA) school held in Logan, Utah every February. The introductory course, Valuation of Utility & Railroad Property, is an excellent introduction to the unit method. The course also provides an opportunity to network with other state employees from all levels of the central assessment process - staff, commissioners, outside appraisers and consultants, expert witnesses, academics, attorneys, etc.).
- The WSATA Committee on Centrally Assessed Property meets annually.
- The Appraisal for Ad Valorem Taxation program held each summer in Wichita.
- The annual IAAO Legal Seminar.
- National Conference of Unit Valuation States (NCUVS), which also features an attorney's breakout session.

A review of staff training indicates that they have been given adequate opportunities for training in the past. However, staff appraisers do need specific training in two particular areas - intangible property and auditing. The valuation of intangibles, in particular, is a controversial area. Required information is quite often proprietary and not readily subject to third party verification (such as audited financial statements), even if the needed data are readily forthcoming.

We are unaware of courses dealing directly with the subject of intangibles, however certain publications are available that could be obtained for self-training or for reference purposes including, *Valuing Intangible Assets* by Robert F. Reilly and Robert P. Schweihs (ISBN 0-7863-1065-0) and *Valuation of Intellectual Property and Intangible Assets* - 2nd edition by Gordon V. Smith and Russell L. Parr (ISBN 0-471-30412-3). Another option is some cross-training with the Utah State Tax Commission where intangibles have been subject to litigation.

Recommendation 8-13: The supervising commissioner, in particular, should attend national and regional workshops on the subject of operating property valuation. The WSATA School and committee meeting are particularly recommended; the Wichita School should also be considered. The other commissioners should consider the same classes.

Recommendation 8-14: The attorneys should attend the same courses as the Commissioners. In addition, they should consider the IAAO legal seminar and the NCUVS.

Recommendation 8-15: Continue providing education to supervisors and staff. Individual appraisers may benefit from the Wichita conference; WSATA course 101, which changes from time to time; and the Public Utility Council of the IAAO, which features topical presentations on current issues. Course 200 of the WSATA school deals with the Principles of Property Tax Auditing, which would also be helpful in auditing intangibles. Legal staff could provide in-house expert witness training or recommend appropriate courses.

8.8 Litigation and Expert Assistance

The credibility and defense of an appraisal program sometimes requires litigation and expert assistance. For operating properties, in particular, litigation is often unavoidable. The current litigation budget for all taxes for the entire Commission is only \$42,000. Any needs for expert witnesses, appraisals, etc. have to be funded with this appropriation. Fortunately, the commission has available to it six attorneys from the attorney general's staff. Of these six, three are available to the County Support Division on a part-time basis. The attorneys are physically located in the Commission's offices, which allows the staff relatively easy access. Due to the extensive demands on the attorneys' time, allocation of these legal resources can sometimes be a problem. Both attorneys and staff agree that physical proximity is an advantage.

Given the limited budget for expert assistance, it is impossible for the commission to determine if operating property values are accurate or to defend itself against allegations of bias. Nevertheless, it may be possible for the commission to contract for some outside expert assistance to advise staff on specific issues, such as intangibles, and perhaps to conduct a limited number of appraisals to help evaluate the accuracy of current appraisals. While a larger study would be highly desirable in helping to resolve current criticisms and controversy, the current budget simply precludes it.

Some have suggested that the commission might reduce CAP staff and contract with outside parties for operating property values. We regard this as impractical for a number of reasons. First, budget is not available to fund the increased costs. Second, the Commission would be dependent on the opinion of outside experts, who hold different professional philosophies and opinions, and who may or may not provide continued service. This would make continuity of policy, positions, and values difficult at best. Third, taxpayers would likely find it difficult to know what was expected and to form viable working relationships. Fourth, the availability of qualified experts at “reasonable” costs is not assured. The seasonal nature of the Commission’s work and tight time frames are added complications. Thus, while we strongly support the use of experts in specific areas, we advise against outsourcing the annual estimation of values.

Recommendation 8-16: Consider contracting for assistance with specific issues, such as the administration of intangibles.

Recommendation 8-17: Consider contracting for a limited number of appraisals by outside experts for the purpose of estimating the level and credibility of current values.

Recommendation 8-18: As appropriate, seek an increased budget for outside assistance for evaluation and support of operating property values. The Commission may also want to contract on an annual, ongoing basis with outside, independent third parties for the audit program. This could be in addition to, or in lieu of, the previously recommended audit position.

8.9 Internal Work Environment

Staff indicated that some years ago the operating property section was physically and managerially segregated from upper management, including the commissioners. This segregated environment resulted in an environment of “us” (operating property section) and “them” (management). Although staff is no longer physically or managerially segregated from the upper management or the rest of the commission, there is a lingering attitude of “us” and “them. In addition, as discussed under the informal hearing process (8.5 above), the staff feels that decisions by management are sometime made in a vacuum and then imposed downward without adequate explanation. We perceive that work relationships may have improved somewhat, but that additional team-building efforts are needed.

Recommendation 8-19: Continue to strive to improve work relationships and an attitude of mutual respect and trust among operating property staff and management.

9. Equalization and Enforcement

As discussed in section 1.2, most states have an array of measures that they may use to bring local assessments into line with legal standards, and Idaho is no exception. Section 9.1 discusses the review and equalization powers of county boards of equalization. Section 9.2 discusses equalization by the Tax Commission in a narrow technical sense (that is, its “indirect” equalization activities and its power to order percentage adjustments to local assessments or “direct” equalization). Section 9.3 addresses its other enforcement tools.

9.1 Equalization by Counties

Sections 63-501 and 63-502 of the Idaho Code give county commissioners, when they sit as the board of equalization, broad powers to adjust assessments on their own initiative (that is, to adjust assessments on properties other than those under appeal). Of course, county boards of equalization ordinarily would have little basis for extensive equalization activities, given the limited time county commissioners can devote to equalization and the limited resources at their disposal. However, §63-501 provides an opportunity for counties to make adjustments recommended by the State Tax Commission, thereby forestalling the need for more formal enforcement actions pursuant to § 63-105A(4). Additionally, the Commission has the power to reconvene a county board of equalization.

A duty of the State Tax Commission (§62-105A(1)) is to supervise and coordinate the work of county boards of equalization. From the information available to us, the Tax Commission has developed limited programs or training materials specifically related to this duty, and none of its rules address county boards of equalization. On request, consulting appraisers would provide assistance, but we are not aware of any such requests. We believe that developing guidelines for county boards of equalization would be beneficial and recommend that the subject be placed on the Commission’s development agenda.

9.2 Equalization by the State

The State Tax Commission functions as a state board of equalization pursuant to § 63-105A. Subsection (4) gives the Commission broad authority to correct assessments, including use of direct equalization. Section 63-109 empowers the STC to equalize by categories, which is preferable to a single, district-wide equalization.

Equalization occurs late in a complex assessment process. Ratio studies provide the basis for equalization decisions, and Idaho’s ratio study program is discussed in section 7.1. The challenge an equalization agency faces is achieving the balance of activities that results in the highest level of assessment performance with the least consumption of resources and the least amount of stress to the system. The STC attempts to do this by notifying assessors early when they are out of compliance with standards. This gives assessors the opportunity to make the necessary changes voluntarily before they surrender their rolls to the county boards of equalization. Should an assessor decline this opportunity, the STC can try to get the county board to make the necessary adjustments. Only when the assessor, the county board, or both decline to take the necessary action, does the STC have to take formal direct equalization measures (sometimes county

boards rescind actions by assessors that result in level standards not being met). In a typical year, there are about twelve instances of counties being found out of compliance. Happily most are resolved without formal direct equalization actions.

9.3 Other State-Level Enforcement Tools

Section 63-316 gives the Tax Commission authority to complete assessment programs (specifically the valuation program required by § 63-314) when an assessor refuses or fails to. The first step is to order the county assessor and county commissioners to take the specific steps needed to comply with the law and rules of the STC. If they fail to comply, the STC then is authorized to make the required adjustments, in essence by assuming the assessment function. The costs of activities under this statute are to be recovered from sales tax distributions to the county.

The STC has invoked its authority under § 63-316 in Lemhi County, which was failing to make the required reinspections and reappraisals. However, to avoid reducing sales tax distributions, the STC entered into a joint powers agreement with the County.

Section 63-1402 lists a series of misdemeanor violations by assessors, county boards of equalization, and others involved in property tax administration, including members of the Tax Commission. Section 63-1404 requires public officers to comply with the rules and orders of the STC, and specifies the things the Commission may do to compel compliance with its orders, including reconvening county boards of equalization and bringing suit. Section 63-1405 authorizes removing persons from office when they willfully neglect or refuse to do their duty.

10. Conclusions

Section 10 summarizes our main findings and recommendations (see the following appendix for a complete list of our recommendations). Our recommendations are predicated on a belief that, even though the property tax largely is a local tax, effective state-level participation in property tax administration is crucial to the overall success of the tax. Fundamentally, a state has a duty to ensure that its laws are administered properly and uniformly. Effective supervision benefits local governments.

As noted in the introduction, we were asked to determine (1) whether each functional area was using its resources economically and efficiently, (2) the causes of any inefficiencies or uneconomical practices, (3) the effectiveness of each area, and (4) whether the STC was in compliance with the state's laws and regulations. We also considered resource sufficiency. Our focus was on assessment supervision generally, operating property assessment, and computer and mapping support to counties.

10.1 Resource Utilization

It is difficult to determine whether the STC is using its resources economically and efficiently for two reasons: First, the STC does not have clearly defined program objectives and associated quantitative performance targets. Second, it inadequately measures how it uses its resources (staffing in particular) and the results obtained. Consequently, our conclusions are impressionistic. Overall, resource levels appear typical. This, coupled with the fact that the STC undertakes a fairly broad range of supervisory activities leads us to conclude that overall the STC is using its resources reasonably efficiently. However, we identified some areas in which efficiency might be improved (such as in the provision of computer support and greater use of printed information).

As noted, there is a perception among STC staff members and some assessors that insufficient funds are budgeted for litigation support, which constrains enforcement activities. Although the STC's attorneys do not share this perception, documented figures on funds for litigation support were not readily available.

Any general under-funding will obviously diminish county support programs. The ProVal installation effort obviously is starved for resources under current no-charge support policies.

10.2 Causes of Inefficiencies or Uneconomical Practices

As noted, we were asked to identify the causes of any inefficiencies or uneconomical practices. We consider the following to be most important.

- Labor-intensive computer support. Computer support provided by TSB to the counties that use the UAD system appears to be unduly labor intensive and to be provided by personnel who are at least nominally overqualified for the role they are notionally playing on a rotating, part-time basis. Development of better written documentation and its more widespread use should enable scarce programmer resources to be devoted to more pro-

ductive developmental purposes. Development of better cost accounting procedures would enable more economical decision-making about appropriate levels of service and resources in this area. See section 6.1.

- Sub-optimal use of AS/400 capabilities. The design of the AS/400-based UAD database violates standard normalization rules. This results in the system having to manage about two times the number of data elements that would be identified as necessary if a proper needs-analysis or system-design document were available. More importantly, it complicates and discourages the tasks of maintaining and enhancing the system, of interfacing it to other systems, and of encouraging sophisticated users to extend their use of the system. The mass appraisal capabilities of the UAD system are primitive relative to what could be accomplished on the AS/400, to the state of the art, and to the ProVal alternative. With the trend of moving CAMA functions off of the AS/400, the advantage of the relative operational stability of the AS/400, and the infrastructure built up to support them in many counties, may be lost. See section 6.1.
- Restraints on written communications and offering legal advice. Current restraints on use of the printed word force the STC to rely on inefficient verbal communications or forgo important communications altogether. In a healthy organization, leaders would delegate responsibility for communication to bodies like the STC and the CSD and accord them a measure of trust in disseminating information on ways to administer the property tax satisfactorily. Appropriate disclaimers, such as in the ratio study manual, can be used. Although limited resources in the Attorney General's Office obviously would affect the amount of assistance that could be rendered and although there may be valid legalistic reasons for not speaking out on legal matters, the fact remains that most other states can overcome such difficulties to provide local officials with timely information on legal matters. See sections 5.4 and 6.3.

Although stationing consulting appraisers around the state potentially economizes on travel time, relying on on-site assistance is inherently expensive.

10.3 Program Effectiveness

As noted above, we were asked to evaluate program effectiveness. The following areas are noteworthy.

Ratio studies and equalization. As noted in section 7.1, Idaho's ratio study program has strengths and weaknesses. Its statistical procedures are outstanding. However, we have concerns about the reliability of the data upon which the studies are based. Because the state does not mandate the disclosure of sales prices and terms, the state must completely rely on data supplied by assessors. From our interviews, we learned that some assessors are more successful than others in obtaining sales data from industry sources (assessors that are or were Realtors® generally have easier access). The second concern has to do with the diligence with which assessors screen sales. Although consulting appraisers are supposed to oversee sales screening, we saw no evidence that the STC adequately monitors sales screening or independently verifies any ratio study data. Any substantial deficiencies in ratio data will adversely impact the accuracy of

the ratio study findings for the counties involved. Depending on the situation, this may result in improper distribution of state aid payments or in a failure to enforce level of assessment standards.

We recommend that all sales (both those considered usable and those considered unusable) be required to be submitted to the STC. This will ensure that all available sales have been accounted for and permit the Commission to monitor more effectively the correct coding of sales. To bolster sample sizes, we recommend that the Commission consider using 2-3 years of sales in its studies, particularly for commercial properties, where sales are generally thin. We also recommend that counties submit electronic copies of their assessment rolls to the Commission on a routine (annual) basis, so that it can undertake more comprehensive analyses and track value changes for sold and unsold properties. The Commission should give someone overall responsibility for ratio studies must also ensure strong, ongoing programming and technical support for its ratio study program, which provides the basis the roll review process and for school aid funding.

Idaho laudably has assessment level performance standards. We believe it also should adopt mandatory uniformity standards (such standards currently are advisory). Although it is more difficult to develop reliability measures of assessment uniformity than measures of assessment level and uniformity problems are less easily corrected, the STC should put counties on formal notice that uniformity is of equal importance to assessment level and, when sample sizes were adequate, pursue correction (through mandated reappraisal) of significant violations. As experience is gained, more refined monitoring and enforcement can be expected. As a general matter, we recommend that COD standards be set within five points of IAAO standards (i.e., 15-20 for residential properties, 20-25 for commercial, and 25 for vacant, rural, and seasonal properties).

General assistance to assessors. As discussed in section 6, the effectiveness of the STC's assistance activities is mixed (computer and mapping support is discussed below). We consider the STC's education program to be of high quality. Some assessors clearly appreciate the assistance provided by consulting appraisers. These service delivery mechanisms are inherently expensive and cannot be assured of reaching every assessor. Greater reliance on printed works (whether on paper or via the Internet) would make it possible to reach a broader audience inexpensively (although they would provide no opportunity to gauge acceptance or comprehension).

Computer and mapping support. The available evidence suggests that Idaho counties have adequate cadastral maps and an adequate parcel identifications system. Several counties have digital maps and have installed (or are planning to install) a geographic information system (GIS). Virtually all counties have computer systems. The STC deserves considerable credit for many of these achievements. Yet, as discussed in section 4.1 and 6.1, there is room for improvement in the capabilities of computer-assisted mass appraisal (CAMA) systems and in computer support programs.

We recommend that the Commission move toward development of a single CAMA system, which would facilitate system development, maintenance, training, and support efforts. Particular attention should be given to the development of practical applications of the sales comparison

and income approaches. Efforts to implement a GIS system are to be commended and should continue to be given high priority and support.

Operating property assessment. The most pressing need is to come to grips with the intangibles issue. In the absence of statutory clarifications, to avoid a morass of insolvable problems, we recommend that the Commission either (a) adopt the cost approach to the valuation of centrally appraised properties or (b) make adjustments only for booked intangibles. At the same time, the Commission should periodically audit information reported by taxpayers to insure that it is accurate and consistent (this is particularly important if it must continue to make intangibles adjustments). In section 8 we identify a number of other opportunities for improving the assessment process for centrally assessed properties, including an extension of the time frame for conducting appraisals and informal reviews and clarification of the value review process and the status of counties at State Board Hearing. We also recommend that the Commission seek an enhanced budget for outside expert assistance with operating property assessments and that staff obtain additional training in audits and other key areas, including intangibles.

10.4 Legal Compliance

Given the latitude inherent in supervision, we found no evidence that the State Tax Commission is not in substantial compliance with Idaho's property tax laws and its regulations. On the other hand, the Commission seems to have legislative authority that it does not use.

We have noted several areas in which we believe additional legislation is needed, particularly with respect to central assessment. Moreover, there would be numerous opportunities to amend rules to make them more effective in advancing the intent of legislation.

We believe there is a risk that the recent legislative and regulatory changes regarding operating property assessment will be challenged on uniformity grounds.

Appendix List of Recommendations

To facilitate references to them, we recapitulate our recommendations in this section. It should be noted that the text of the report contains elaborations on these recommendations and other suggestions.

Basic Legal Framework

Recommendation 3-1: The STC should attempt to clarify with the Department of Administration, the Attorney General's Office and the Legislature the extent to which it can offer general guidance to assessors and other county officials. It should consider seeking specific authority to issue manuals with the understanding that compliance with all provisions of manuals is not mandatory (bearing in mind that manuals normally provide guidance on carrying out duties mandated by law or rule).

Local Assessment Effectiveness

Recommendation 4-1: As appropriate, the STC and the Idaho Association of County Assessors should continue their efforts to implement a full disclosure law.

Recommendation 4-2: The STC should consider how best to provide the real property appraisal modules now provided barely adequately by UAD and somewhat more effectively by ProVal.

Recommendation 4-3: The STC should develop more user-friendly sales comparison and income approach capabilities. This could involve modifications to the current ProVal system, augmentation of the UAD system, development of a separate module that would work from data extracted from ProVal and interfaced with UAD for valuation, or the procurement of a completely different system. If an approach involving incremental improvements rather than wholesale replacement is adopted, the initial emphasis should be placed on the sales comparison approach, where the need is greatest.

STC Management Effectiveness

Recommendation 5-1: The STC in general and the CSD in particular should engage in more effective strategic planning.

Recommendation 5-2: At least in its internal budget preparations, the CSD should develop rationales for its appropriations that attempt to quantify the work that will be accomplished and, to the extent possible, the benefits to the state and local governments that derive from that work.

County Support

Recommendation 6-1: The STC should institute a mechanism for tracking the use of professional programmer time spent on various activities with a view to measuring the costs of providing various kinds of support to various jurisdictions relative to the time spent designing, programming and testing various system enhancements, fixing programming errors, and other tasks.

Recommendation 6-2: The STC should consider revising its staffing arrangements to ensure that help/support functions do not impinge upon design, programming, and testing duties.

Recommendation 6-3: The STC should plan more comprehensively before implementing major new projects, and should document expected timelines/milestones, task dependencies, resource requirements, personnel commitments, associated opportunity costs, and the like.

Recommendation 6-4: The STC should insist, as a condition of providing STC support, that local jurisdictions plan comprehensively before implementing major projects such as the ProVal CAMA implementation, and should document expected timelines/milestones, task dependencies, resource requirements, personnel commitments, associated opportunity costs, and the like. Support requirements beyond reasonable or mutually agreed levels may be subject to alternate arrangements, perhaps including outsourcing or negotiated cost recovery.

Recommendation 6-5: The STC should comprehensively review whether to continue to support two disparate systems or to phase out one or both of them in favor of another alternative.

Recommendation 6-6: The STC should engage in enough high-level analysis and documentation of the needs and resources of the CSD and the counties that the issues of maintaining two different systems and meeting the other needs of the STC may be addressed in a systematic and cogent way. This effort should perform include documentation of the design of the current systems. We leave open whether the analysis should be done internally, perhaps with the help of a consultant (possibly also internal), or largely outsourced. If it is outsourced, we would nevertheless recommend that internal capacity be developed to assist in its development, to ensure that the documents are maintained, and to ensure that a coherent needs-analysis/system design perspective continues to be brought to bear during the development of systems for internal STC/CSD use.

Recommendation 6-7: The STC should consider whether a reorganization of the division's computer support operation may be warranted. In name, history, and practice, TSB seems to have been concerned almost exclusively with providing support to "its" local clientele, to the detriment of the larger computer support needs associated with the administration of the property tax by the STC generally.

Recommendation 6-8: The STC should develop detailed guidance on reappraisal programs, property use categorization (although perhaps only after the categories have been rationalized), and similar complex and technical matters.

Monitoring and Analysis

Recommendation 7-1: Counties should provide all sales electronically to the STC.

Recommendation 7-2: Consider using two or three years of sales in ratio studies, at least for commercial properties.

Recommendation 7-3: The Commission should formally appoint someone in charge of the ratio study and ensure stronger programming and technical support for the ratio study program.

Recommendation 7-4: The STC should develop a program to acquire digital copies of rolls. It should explore whether existing legislative authority under §§ 63-105A, 63-219, and other statutes is sufficient, and it should begin developing the necessary rules. At the same time, it should develop the necessary file specifications for counties not on UAD and any necessary programs for those under UAD.

Recommendation 7-5: Management should evaluate its communications needs with assessors (in both directions) and the role consulting appraisers should play in this regard. We recommend that CSD consider establishing a more formal reporting system of hours of service to a county, accomplishments, and problems.

Central Assessment

The most important recommendations are 8-3 and 8-17.

Recommendation 8-1: Seek to extend the time frame for conducting appraisals and informal reviews.

Recommendation 8-2: Implement audits of taxpayer information.

Recommendation 8-3: Consider legislation that would mandate use of the cost approach for all operating properties. Alternatively, the STC should consider a model providing for the deduction of booked intangibles using “market value to book value” ratios for determining assessed values.

Recommendation 8-4: If a better policy solution is not found or if recommendation 8-3 is not accepted, the Commission should seek legislation to eliminate method B.

Recommendation 8-5: If legislation mandating the use of the cost approach is not adopted, Commission staff should not feel precluded from placing appropriate reliance on the stock and debt method. The prohibition of the direct capitalization method should not extend to the use of and reliance on the stock and debt approach.

Recommendation 8-6: Unless and until the intangibles issue is resolved (by legislation mandating use of the cost approach), the Commission staff should keep records of the impact of the intangibles exemption each year.

Recommendation 8-7: Propose legislation to adopt uniform allocation procedures (except for private railcars which are already covered by rule).

Recommendation 8-8: Thoroughly test the new apportionment system before implementation and provide tax area maps to affected taxpayers for free as they are updated.

Recommendation 8-9: Develop procedures for the informal settlement process and notify taxpayers of their options by letter accompanying amended appraisals mailed around the first Monday of July.

Recommendation 8-10: Authorize staff to make informal settlements based on the amount of money at risk and obtain staff input before making settlements involving appraisal issues. Any settlements should be documented and taxpayer assent should be recorded to preclude the possibility of litigation after settlement has been reached.

Recommendation 8-11: The Commission should adopt procedures requiring the taxpayers to file, if not a preliminary brief, at least a statement of the issues with a brief synopsis of the argument(s) at least one week before Board of Equalization hearings. If the Commission cannot adopt such a procedure on its own authority, a rule and/or a statutory change should be pursued.

Recommendation 8-12: The Commission should adopt procedures clarifying the participation of assessors, their representatives, and other interested parties in the Board of Equalization hearings.

Recommendation 8-13: The supervising commissioner, in particular, should attend national and regional workshops on the subject of operating property valuation. The WSATA School and committee meeting are particularly recommended; the Wichita School should also be considered. The other commissioners should consider the same classes.

Recommendation 8-14: The attorneys should attend the same courses as the Commissioners. In addition, they should consider the IAAO legal seminar and the NCUVS.

Recommendation 8-15: Continue providing education to supervisors and staff. Individual appraisers may benefit from the Wichita conference; WSATA course 101, which changes from time to time; and the Public Utility Council of the IAAO, which features topical presentations on current issues. Course 200 of the WSATA school deals with the Principles of Property Tax Auditing, which would also be helpful in auditing intangibles. Legal staff could provide in-house expert witness training or recommend appropriate courses.

Recommendation 8-16: Consider contracting for assistance with specific issues, such as the administration of intangibles.

Recommendation 8-17: Consider contracting for a limited number of appraisals by outside experts for the purpose of estimating the level and credibility of current values.

Recommendation 8-18: As appropriate, seek an increased budget for outside assistance for evaluation and support of operating property values. The Commission may also want to contract on an annual, ongoing basis with outside, independent third parties for the audit program. This could be in addition to, or in lieu of, the previously recommended audit position.

Recommendation 8-19: Continue to strive to improve work relationships and an attitude of mutual respect and trust among operating property staff and management.