

Understanding the Valuation Process

This chapter of the manual contains a brief discussion of the methodology used to establish the values that appear on the assessment and tax rolls.

Appraisal Cycle

Assessors attempt to revalue property either on a regular basis or when data indicates reappraisal is necessary. The law no longer requires all property to be reappraised every six years.

To do this, the assessor divides the county into “appraisal areas,” “neighborhoods,” “value areas,” or “hot spots.” Each year the assessor’s appraisal staff estimates the real market value (RMV) for properties within identified reappraisal areas. Properties that are not included in the reappraisal area are valued based on market trends identified in the “Assessor’s Certified Ratio Study.” The ratio study is discussed in Chapter 8 of this manual.

ORS 308.234
ORS 309.200

The Assessment Date

Oregon law requires all property to be valued “as of the assessment date for the tax year.” The definition of assessment date for most property is “January 1 at 1 a.m. of the assessment year.” The tax year is based on the fiscal year, July 1 through June 30. For example, the assessment date for the 2005-06 tax year is January 1, 2005. The 2005-06 tax year runs from July 1, 2005 through June 30, 2006.

ORS 308.210

Real Market Value (RMV)

The assessor must value all property within the county at 100 percent of its real market value. The statutory definition of “real market value” is:

“ . . . the amount in cash that could reasonably be expected to be paid by an informed buyer to an informed seller, each acting without compulsion in an arm’s length transaction occurring as of the assessment date for the tax year.”

Real market value is determined in accordance with the following:

- The amount a typical seller would accept or the amount a typical buyer would offer that could reasonably be expected by a seller of property.
- An amount in cash shall be considered the equivalent of a financing method that is typical for a property.
- If the property has no immediate market value, its real market value is the amount of money that would justly compensate the owner for loss of the property.

ORS 308.205

Real market value can go up or down depending upon the market and circumstances specific to the property.

How Real Market Value (RMV) is Established

The assessor establishes the property values on the assessment roll through the appraisal process.

Webster’s gives the following definition of “appraise”:

“. . . to set value on: estimate the value of . . . to evaluate the worth, significance, or status of. . . to give an expert judgment of the value or merit . . . ”

The basis of the appraisal process is the comparison of properties that have not sold to properties that have sold at prices typical for the type of property being valued. In addition to sales, income and rents are also used to establish some property values.

The most in-depth appraisal requires a physical or on-site inspection of the property. As part of this process, the appraiser takes an inventory of all improvements. This includes measurements and complete descriptions of all buildings, decks, fences, paving, and other additions to the land. The condition and functional utility

of the property are also reviewed. Based on the information gathered, the appraiser classifies the property using guidelines and manuals provided by the Department of Revenue or other cost sources.

Finally, the appraiser uses all information and accepted appraisal methods to determine the RMV of the land, the buildings, and on-site development (OSD).

Many counties no longer physically reappraise property on a regular basis, but adjust values annually through what is called automated valuation modeling (AVM). In Oregon, we sometimes refer to AVM as “recalculation.” Automated valuation modeling uses a mathematically based computer software program to produce an estimate of market value based on location, market conditions, and real estate characteristics.

Maximum Assessed Value (MAV)

Maximum assessed value is a term that was created by Measure 50, a property tax measure Oregon voters passed in 1997. Maximum assessed value for the 1997-98 tax year (the year the measure was implemented), was the 1995-96 real market value reduced by 10 percent and adjusted for certain changes to the property that occurred between the 1995 and 1997 tax years. For the 1998-99 tax year and all following tax years—MAV is defined as the **greater** of 103 percent of the prior year’s assessed value or 100 percent of the prior year’s MAV—plus the MAV of any exception value (exception value is defined below.)

ORS 308.146

Assessed Value (AV)

Assessed value is defined as the **lesser** of the property’s real market value or maximum assessed value.

ORS 308.146

Exceptions

Exception means a change to property excluding general ongoing maintenance and repair or minor construction. Examples of changes to property that qualify as exceptions include: new construction or additions, major remodeling or reconstruction, rezoning with use consistent with the change in zoning, a partition or subdivision,

or a disqualification from special assessment or exemption.

ORS 308.149

Changed Property Ratio (CPR)

The changed property ratio is used to calculate the maximum assessed value of an exception. The assessor calculates the CPR by dividing the average MAV of all unchanged properties in the same area and property class by the average RMV of all unchanged properties in the same area and property class. (ORS 308.149 defines “area” as the “county.”) The RMV of the exception is then multiplied by the CPR to calculate the maximum assessed value for the exception. The purpose of multiplying the RMV of the exception by the CPR is to bring the MAV of new (changed) property to the same general assessment level as unchanged property.

ORS 308.153

General Ongoing Maintenance and Repair

General ongoing maintenance and repair includes work and materials that are needed to maintain a structure in average condition without significantly changing the design or materials. The increase in value to a property attributed to general ongoing maintenance and repair does not qualify as an exception and may not be added to MAV. For example, replacing the 15-year-old composition shingle roof cover on a house with similar quality composition shingles is considered general ongoing maintenance and repair. The roof cover replacement may increase the property’s RMV, but MAV cannot be adjusted. In contrast, replacing the old composition shingle roof cover with bar tile is considered an upgrade to the roof cover and the difference in real market value due to the upgrade in the roofing material qualifies as an exception if it meets the minor construction test.

OAR 150-308.149-(A)

Minor Construction

Minor construction is a change to property that would qualify as an exception, except that it has a real market value of \$10,000 or less in a single assessment year, or an accumulation of \$25,000 or less during five assessment years. If the \$25,000

minor construction accumulation is exceeded prior to five years, the accumulation pool and the five-year period are reset for the next year. Minor construction does not increase MAV, but can increase RMV.

For a single year, the value of all new property and new improvement exceptions are combined to see if the \$10,000 threshold has been exceeded. For example:

A \$1,500 driveway and a \$6,000 outbuilding are added to a property in one assessment year. The exception value is \$7,500. In this case, the RMV of the new improvements is below the minor

construction single year limit. The \$7,500 will be added to the account's RMV, then added to the accumulation pool and tested against the \$25,000 limit.

When new property and improvement value exceeds \$25,000 in the accumulation pool during the five-year period, the value is added to MAV in two steps. The first step is to identify all value in the accumulation pool that has not already been used to adjust MAV. The second step is to multiply that value by the current year CPR and add it to MAV.

	Exception RMV	Pool RMV	Adjustment RMV	
Example 1:				
Year 1	\$7,500	\$7,500	\$0	Does not qualify by either test.
Year 2	\$11,000	\$18,500	\$11,000	Qualifies by individual year test.
Year 3	\$7,000	\$25,500	\$14,500	Qualifies Year 1 and Year 3 by five-year accumulation test.
Example 2:				
Year 1	\$8,500	\$8,500	\$0	Does not qualify by either test.
Year 2	\$100,000	\$108,500	\$108,500	Qualifies by individual year test. Qualifies Year 1 by five-year accumulation test.
Reset		Reset		
Year 1	\$9,500	\$9,500	\$0	Does not qualify by either test.
Example 3:				
Year 1:	\$12,000	\$12,000	\$12,000	Qualifies by individual year test.
Year 2	\$0	\$12,000	\$0	Does not qualify by either test.
Year 3	\$5,000	\$17,000	\$0	Does not qualify by either test.
Year 4	\$7,000	\$24,000	\$0	Does not qualify by either test.
Year 5	\$0	\$24,000	\$0	Does not qualify by either test.
Year 6	\$11,000	\$23,000	\$11,000	Qualifies by individual year test. Year 1 value of \$12,000 has fallen off the accumulation total so it does not qualify by accumulation test.

In the first year manufactured structures or floating homes are put on the roll, the minor construction limit does not apply. The limit does apply to any existing accounts that are related to the manufactured structure or floating home.

For example: A personal property manufactured structure is placed on a previously vacant property. The manufactured structure has an RMV of \$5,000. The \$5,000 is an adjustment to MAV for the manufactured structure account, regardless of the minor construction limit test. The previously vacant land needed site improvements before the manufactured structure could be placed. The site improvements were valued at \$7,500. The \$7,500 for the site improvements is subject to the minor construction limit test, so MAV is not adjusted, but the \$7,500 value goes into the real property account's five-year accumulation pool.

ORS 308.149(6)

Adjustments to Maximum Assessed Value

Depending on the exception type, MAV may be adjusted in one of three ways:

1. Changes where only a portion of the property qualifies as an exception. The RMV of the exception is multiplied by the CPR and added to the "base MAV." The base MAV is the current year MAV of the portion of the property that was on the assessment roll for the previous tax year. As previously discussed, the current year MAV is the greater of 103 percent of the prior year's assessed value or 100 percent of the prior year's MAV. Examples of this type of exception are:
 - New property or new improvements to property.
 - Property that is being added to the roll as omitted property.
 - Property that is disqualified from partial exemption.
 - Property that is re-zoned and only part of the property is used consistently with the new zone.
 - Property that is disqualified from special assessment when only part of the property was specially assessed.
 - Property that is partitioned or subdivided when the property includes an improvement not affected by the subdivision or partition.

Sample Calculation:

In the example below the property owner built a new outbuilding during 2004. The assessor "picked up" the exception and added it to the roll for the 2005-06 tax year.

Values on 2004-05 Tax Roll Prior to Change in Property

Land RMV	\$ 50,000
Bldg RMV	95,000
Total RMV	145,000
Total MAV	123,250
Total AV	\$ 123,250

Values on 2005-06 Tax Roll after Adjustment for the Change in Property

Land RMV	\$ 50,000
Bldg RMV	135,000
Total RMV	185,000
Base MAV (123,250 × 1.03)	126,940
Exception RMV (new building)	40,000
CPR	.83
Exception MAV (40,000 × .83)	33,200
Total MAV (base MAV + Exc MAV)	160,140
AV (lesser of RMV or MAV)	\$ 160,140

Note: Numbers are rounded down to the nearest \$10.

2. Changes that allow the assessor to calculate a new RMV for the entire property. The new RMV is then multiplied by the CPR to establish a new MAV. There is no base MAV; the property is 100 percent exception value. Examples of this type are:
 - New property (no prior tax account),
 - Property that is partitioned or subdivided—when the property includes an improvement defined as affected under OAR 150-308.156(5)-(A) or all lots are vacant,
 - Property that is disqualified from an exemption and the entire property was exempt,
 - Property that is re-zoned and the entire property is used consistently with the new zone, and
 - Property that is disqualified from special assessment and the entire property was specially assessed.

Sample Calculation:

In the example below, the property owner purchased a house that was recently built on a lot that did not exist during the previ-

ous tax year. All of the property qualifies as an "exception" for the 2005-06 tax year.

Values on 2005-06 Tax Roll after Adjustment for the Change in Property

Land RMV	\$ 100,000
Bldg RMV	300,000
Total RMV	400,000
Base MAV (account did not exist)	0
Exception RMV (land, OSD & bldg)	400,000
CPR	.85
Exception MAV (400,000 × .85)	340,000
Total MAV (base MAV + Exc MAV)	340,000
AV (lesser of RMV or MAV)	\$ 340,000

3. Changes that require a MAV balance. In this process, MAV is shifted between accounts, but the total MAV of all affected properties remains the same.

- Lot line adjustments.

MAV can also be adjusted for properties affected by fire or act of God. If property is destroyed or damaged by fire or act of God, MAV will be adjusted downward for the current tax year if a qualified person files an application to have the property valued for July 1. The application must be filed with the assessor by August 1 of the tax year. If no application is filed, MAV will be adjusted for the following tax year. MAV cannot be adjusted for properties destroyed or damaged by an event other than fire or act of God.

Personal Property

Personal property is any property not classified as real property.

Generally, tangible personal property is taxable in Oregon if it is currently being used or is being held for use in a business, or is floating property. Examples of taxable personal property are: moveable machinery, tools, equipment, supplies, office furniture, law books, shelving, fork lifts, etc. Houseboats are considered floating property and are taxable as personal property.

Each year, the assessor sends personal property owners a *Confidential Personal Property Return*. Both business property and floating property must be reported on a personal property return. From the information supplied by the taxpayer in the personal property return, existing records, depreciation tables, and physical inspections (if

necessary), the assessor calculates the real market value of the personal property. **(The minor construction RMV limit test does not apply to personal property.)**

Personal property returns are due back to the assessor on or before March 1 of each year. The assessor may grant a filing extension to April 15 if the taxpayer shows good cause in their request.

If the total value of all the personal property assessed to an individual taxpayer within a county is \$12,500 or less, the assessor will cancel the assessment for the property for the current tax year. This number will increase or decrease each year according to the following schedule:

For each tax year beginning on or after July 1, 2003, the Department of Revenue shall recompute the maximum amount of the assessed value of taxable personal property for which ad valorem property taxes may be canceled. The adjustment to the cancellation amount will be based on changes in the U.S. City Average Consumer Price Index and be rounded to the nearest \$500.

For the 2005-06 tax year, the maximum amount of the assessed value for which property taxes may be canceled is \$13,000.

If returns are not filed timely or the taxpayer fails to file a return, the taxpayer is assessed a penalty. The penalty is 5 percent of the tax owed if the return is filed after March 1, but on or before June 1. The penalty increases to 25 percent of the tax owed if the return is filed after June 1, but on or before August 1. If a return is filed after August 1, or the owner fails to file a return, the penalty assessed is 50 percent of the tax owed. Personal property manufactured structures are not reported on a personal property return and should be appealed on a real property petition.

The board of property tax appeals has jurisdiction to waive all or a portion of a penalty assessed for the late filing of a personal property return. The circumstances under which BOPTA may waive or reduce a late filing penalty are discussed in detail in Chapter 16.

ORS 308.290
ORS 308.295
ORS 308.296

Industrial Property

For appraisal purposes, industrial property in Oregon is divided into the following three groups:

- “Principal” industrial accounts are properties that have a real market value for the improvements, machinery, and equipment of more than \$5 million. These accounts are appraised by the Oregon Department of Revenue (state responsibility accounts).
- “Secondary” industrial accounts have a real market value for the improvements, machinery, and equipment of more than \$1 million but less than \$5 million. These accounts are also appraised by the Oregon Department of Revenue (state responsibility accounts).
- “All other” industrial accounts are properties that have a real market value for the improvements, machinery, and equipment of less than \$1 million. These accounts are appraised by the county in which the property is located (county responsibility accounts).

County responsibility industrial accounts are reported to the assessor on a *Real Property Return*. The assessor may also ask owners of other types of property to file a return.

State responsibility industrial accounts are reported to the department on an *Industrial Property Return*. An *Industrial Property Return* is also referred to as a combined return, because both real and personal property are reported to the department on the return.

If returns are not filed timely, the taxpayer is assessed a penalty. For county responsibility accounts, the penalty is \$1 for each \$1,000 of assessed value of the property, with a minimum penalty of \$10 and a maximum penalty of \$250.

For state responsibility accounts, the penalty is \$10 for each \$1,000 of assessed value of the property, with a minimum penalty of \$10 and a maximum penalty of \$5,000.

The board of property tax appeals has jurisdiction to waive all or a portion of a penalty assessed for the late filing of a *Real Property Return* or an *Industrial Property Return*. The circumstances under which BOPTA may waive or reduce a late filing penalty are discussed in detail in Chapter 16.

The county is responsible for the appraisal of the land under state responsibility accounts.

ORS 308.290

ORS 308.295

Specially Assessed Property

The legislature has established several programs that create value levels below market value for certain types of property. The intent in establishing these programs was to create incentives in the form of lower taxes to encourage specialized property uses. Each program has specific application and use requirements. Examples of types of property that may qualify for special assessment are farmland, forestland, historic property, qualified multi-unit rental property, and open space. In addition to real market value and maximum assessed value, specially assessed properties have two additional values. They are the specially assessed value (SAV) and the maximum specially assessed value (MSAV).

SAV is the value obtained by applying the specially assessed statutes appropriate for the property type.

The 1997-98 MSAV for specially assessed properties was calculated by reducing the 1995-96 SAV by 10 percent. MSAV may be increased or recalculated under certain circumstances. Under current law, MSAV equals the greater of 103 percent of the assessed value for the preceding tax year or 100 percent of the maximum assessed value for the preceding tax year.