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RECENT CHANGES IN THE OKLAHOMA PROPERTY TAX SYSTEM

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Several recent changes in the property tax system in Oklahoma will significantly affect many property owners in Oklahoma. Equalization ordered by the State Board of Equalization will tend to increase the tax liability of all taxpayers in certain counties. The implementation of use valuation of real estate may provide property tax relief for some farmers and ranchers who own their land. The last two sections of this report will detail these two changes and discuss how they affect taxpayers in Oklahoma. The first section describes the current property tax system in Oklahoma, thereby providing a basis for the later discussions.

Present Property Tax System in Oklahoma

In order to fully appreciate the causes and consequences of recent changes in the property tax system of Oklahoma, it is necessary to understand the general operation of the system and to become familiar with some technical terms. The heart of the property tax system in Oklahoma is the county assessor. The assessor is responsible for the annual preparation of the tax rolls. Upon completion of the assessment lists by the Assessor, they are approved by the County Equalization Board and sent to the Oklahoma Tax Commission and the State Board of Equalization for approval. They are then returned to the assessor and excise board for determination of the amount of tax due on each property. The completed tax rolls are presented to the county treasurer for collection.

Appraisal. The county assessor performs two basic functions: appraisal and assessment. Appraisal means the determination of the value of property. Prior to 1972, the value that assessors were to appraise was the market value of property--the price that the property would receive in a fair sale. Market values are relatively easy to determine for most property. Price received at auction sales and sale prices of comparable properties are frequently used to estimate or appraise market value.

In 1972, the Constitution of Oklahoma was changed such that the basis for appraising real estate shifted from the market value concept, to a use value basis. Use value is the value of property in its actual rather than potential use. Perhaps an example will make this difference a bit clearer. Consider a quarter section of land near an urban center that has a major highway on one side. At the present time, the land is in wheat. Because the property is ideally situated for a shopping center, the owner of the land has been offered as much as $4,000 per acre for the land. Therefore, the market value of the land is at least $4,000 per acre. When property taxes were based on market values, this property would have been appraised at $4,000 per acre even though similar wheat land in more remote portions of the county was selling for $400 per acre. Land that has value only for use as wheat land, is used to determine the use value of wheat land. Therefore, the use value of every acre of wheat land (of equal quality) in the county would be $400, such that all wheat land, regardless of its proximity to urban areas, would pay the same amount of tax. The market value of wheat land in the county varies between $400 and $4,000 per acre but the use value is a constant $400. Under the market approach in this example, some wheat land would pay ten times as much tax as other land equally suited for wheat production because of its location.

County assessors must appraise the value of all property at least every five years to make sure that increased values are fully reflected on the tax rolls. The process of continually updating appraised values is called revaluation.

Assessment. Once the county assessor has determined the appraised value of a parcel of property, it must be placed on the assessment rolls at no more than 35% of its appraised value. In practice, each individual assessor will assess property in a slightly different manner. Usually the assessor will fix an assessment ratio at a level that will generate adequate tax revenues in the coming year, and place all property on the assessment rolls using that rate. For instance, assume an assessor uses an assessment ratio of 15% of appraised value. Then land appraised as having a use value of $400 per acre would be placed on the assessment rolls at its assessed value of $60 ($400 x 15%). The selection of the assessment rate is very important because it is the easiest element in the property tax system to adjust if additional tax revenue is needed.

Taxation. Once the county assessor has prepared the assessment rolls showing the total assessed value of all property in the county, the County Board of Equalization meets to hear any complaints from property owners concerning assessments, and to establish the millage rates that will be charged in the coming year.[1] A mill is a tax of $1.00 per $1,000 of assessed value. If the County Excise Board sets a total millage rate of 87, then the taxpayers in the district will pay $87 for each $1,000 of assessed value on the assessment rolls.

Theoretically, the County Excise Board should determine the revenue to be derived from the property tax by adjusting millage rates to suit the needs of

common schools, county government and other programs financed by the local property tax. But in practice, state law establishes maximum millages that may be levied and almost every district levies the maximum. The two most important millage limits are 10 mills for general county government, and 39 mills for operating expenses of common schools. Due to the millage limits, the only manner in which a county that is already charging 39 can generate additional revenue for common schools is to increase the tax base on which that 39 mills is collected. As we noted before, this may be accomplished by increasing the assessment ratio.

Equalization. The assessment rolls of each county are sent to the State Board of Equalization after they have been approved by the individual County Boards of Equalization. The State Board of Equalization is given the constitutional responsibility of determining that property throughout the state has been assessed at approximatley the same rate. That is, the Board must certify that the ratio between use value and assessed value is about the same for each county. If the State Board of Equalization finds that it is not, then it may adjust the assessment ratio of the errant counties by increasing or decreasing the assessed values of each parcel of property on the county's rolls by a constant percentage factor. This is called equalization--the equalizing of the assessment rates among counties.

Current Equalization Program

In April, 1975, the State Supreme Court ruled that the State Board of Equalization had not performed its duty as required by the constitution. A wide disparity among assessment rates in the various counties was cited as evidence of the Board's past inaction. After the court ruling, the Board hired a private firm to measure the present assessment ratio for each county. The firm was instructed to determine the average assessment rate for residential, agricultural and commercial/industrial property in each county. By late 1975, this study was completed. The three ratios for each county were aggregated into a weighted average or "composite" ratio which was then reported to the State Board of Equalization.

In the spring of 1976, the State Board of Equalization announced its equalization program. A composite assessment rate of 12% was set as the statewide objective. Each county assessor was instructed to aim for the target of 12%. But the Board (and the court) recognized that it is impossible to accurately hit this target each year, so the Board gave assessors a margin of error of three percentage points on either side of 12%. Thus, the equalization program requires that the composite assessment ratio be within the 9% to 15% range.

At the same time, the Board instructed the Oklahoma Tax Commission (OTC) to initiate its own ratio study utilizing a uniform use valuation appraisal technique consistent with the 1972 Constitutional Amendment. This order was issued in response to criticisms of the 1975 ratio study that had been prepared for the Board by the private firm.

Finally, the Board ordered each assessor to complete the adjustment of assessments in their county within three years starting with 1977. Those counties with composite ratios above or below the allowable range were instructed to decrease or increase assessments by approximately one-third in each of the next three years such that by 1979, all counties would be in compliance with the equalization program. Composite 1976 assessment rates for each county are shown on the back page of this report. There are 51 counties that are presently under the 9% minimum rate and two counties (Tulsa and Oklahoma) that are slightly above the maximum allowable rate.

By examining the data on the back of this report you may determine what is likely to happen to assessments in your county over the next three years. If the composite rate for your county is greater than 9%, then there probably will be little change in assessed values beyond that which reflects normal increases in property values. If, on the other hand, the composite rate in your county is less than 9%, then assessments will have to increase faster than appraised values, such that the assessment ratio will increase toward the 9% minimum acceptable limit. For instance, in Lincoln county, the present composite rate is 4.47% or just under one-half of the minimum level of 9%. To increase the ratio to the 9% limit, the county assessor must increase assessments by 101% (doubling them) within the three-year adjustment period.

It is impossible to say for sure what affect an adjustment in the composite assessment ratio will have on the tax bill of individual taxpayers for two reasons. In the first place, the State Board of Equalization did not stipulate the exact manner in which the county assessor should increase assessments to adjust the assessment ratio. If the composite ratio is to be increased by 100%, this can be accomplished by either increasing the assessed value of all property by 100%, or by increasing the assessment on part of the total property in the county by more than 100% and on the other part by less than 100%. Each county assessor should be able to tell you how he or she intends to comply with the Board's order if adjustment is necessary. The second reason that increases in assessments may not increase all tax bills proportionately is that the County Excise Board may decide to reduce millage rates as assessments increase such that the total tax revenue of the county stays more or less constant. In reality, there is little flexibility in the total millage rate so higher assessment ratios will probably mean higher total taxes collected in the county. The impact of this on county finances will be particularly noticeable in those five counties that will have to more than double current assessed values to comply with the Board's order.

Use Valuation of Agricultural Land

As indicated above, the State Board of Equalization instructed the Oklahoma Tax Commission to perform a systematic assessment ratio study consistent with the constitutional requirement of use valuation of real estate. During the spring and summer of 1976, the OTC developed a consistent set of appraisal procedures that could be used to determine the use value of agricultural land, and hired the personnel necessary to carry out a statewide ratio study.

Use value, as defined by the OTC, is the productive value of land in its typical agricultural use. The productive value of land is measured by a "productivity index". A productivity index is a multi-dimensional measure computed by professional soils scien-

[1] Technically, the millage rate is set by the County Excise Board. The Excise Board and the Equalization Board share the same membership.

tists which reflects the quality of the soil itself, the topography of the land, local climate, liklihood of flooding and normal cover. In general, the soil quality, rainfall belt, and slope of the land determines the productivity index.

Several counties in Oklahoma have already been mapped with productivity indicies by the Soil Conservation Service based on their soils surveys and other data. For most counties, productivity index maps have not yet been prepared, so the OTC hired a professional soils scientist to complete the task.

Once a county is mapped with productivity indicies, the total number of productivity "points" contained within a parcel of land may be computed. The best land in each county is given a productivity point rating of 100 per acre, while land of lesser quality, due to a less productive soil type or steeper slope, will be given a lower rating. The total number of productivity points for a parcel is simply the summation of the productivity indicies for each acre of land in the parcel. Thus, a 100-acre parcel that contained 60 acres of land classed at 100 points per acre and 40 acres of 50-point land would have a total point count of 8,000 ([60 x 100] + [40 x 50] = 8,000).

In order to complete the ratio study, the OTC must compute not only the productivity points of several ample parcels, but also determine what the use value per point should be. The OTC has adopted what has been termed the "remote parcel" approach. Theoretically, the market value and use value of a very remote parcel of land should be approximately the same. That is, the only value of a remote parcel is its productive value. Thus, if the OTC identifies a remote parcel that has been sold at arm's length in the recent past and computes the total productivity points that are included in the parcel, then the sale price divided by the total productivity points will equal the use value per point. This procedure is repeated at several remote parcels and an average price per point computed. The use value per point should be rather constant among remote parcels indicating that the market is efficiently discounting the price of lower quality land.

Once the use value of a productivity point is estimated within a county (and they should be different among counties indicating that the value of the best land in each county is different), the OTC completes its ratio study by multiplying the total productivity points in a sample of parcels throughout the county (not just remote parcels) times the value per point.

County	A*	B**	C***
ADAIR	4.11	119	9319
ALFALFA	7.50	20	4007
ATOKA	3.38	166	13260
BEAVER	9.47	0	0
BECHAM	8.25	9	1728
BLAINE	6.65	35	6874
BRYAN	4.78	88	18765
CADDO	7.53	20	5195
CANADIAN	9.39	0	0
CARTER	9.20	0	0
CHEROKEE	6.35	42	8018
CHOCTAW	11.05	0	0
CIMARRON	8.18	10	1278
CLEVELAND	13.31	0	0
COAL	4.07	121	6984
COMANCHE	11.66	0	0
COTTON	7.55	19	1848
CRAIG	5.41	66	10507
CREEK	13.92	0	0
CUSTER	8.27	9	2253
DELAWARE	6.24	44	9664
DEWEY	3.75	140	12567
ELLIS	9.46	0	0
GARFIELD	9.89	0	0
GARVIN	7.31	23	5750
GRADY	6.79	33	11543
GRANT	6.85	31	6205
GREER	7.07	27	2863
HARMON	6.40	41	2844
HARPER	8.45	7	526
HASKELL	7.22	25	1749
HUGHES	6.51	38	3941
JACKSON	8.88	1	350
JEFFERSON	5.76	56	5654
JOHNSTON	4.43	103	8489
KAY	9.67	0	0
KINGFISHER	7.93	13	3572
KIOWA	8.90	1	199
LATIMER	8.52	6	330
LEFLORE	9.39	0	0
LINCOLN	4.47	101	13258
LOGAN	7.40	22	4730
LOVE	5.45	65	4914
MCCLAIN	6.18	46	8012
MCCURTAIN	8.32	8	1676
MCINTOSH	4.98	81	8499
MAJOR	5.55	62	9449
MARSHALL	5.61	60	5288
MAYES	6.80	32	6952
MURRAY	8.25	9	795
MUSKOGEE	9.93	0	0
NOBLE	7.59	19	3234
NOWATA	5.20	73	7590
OKFUSKEE	4.87	85	6532
OKLAHOMA	15.56	-4	-27595
OKMULGEE	8.41	7	1966
OSAGE	7.40	22	9060
OTTAWA	10.50	0	0
PAWNEE	8.46	6	955
PAYNE	10.21	0	0
PITTSBURG	9.07	0	0
PONTOTOC	8.78	3	774
POTTAWATOMIE	10.02	0	0
PUSHMATAHA	9.05	0	0
ROGER MILLS	4.79	88	6919
ROGERS	9.22	0	0
SEMINOLE	12.73	0	0
SEQUOYAH	5.76	56	8360
STEPHENS	7.79	16	5889
TEXAS	9.70	0	0
TILLMAN	9.24	0	0
TULSA	18.04	-17	-138066
WAGONER	9.28	0	0
WASHINGTON	13.04	0	0
WASHITA	7.38	22	3739
WOODS	5.14	75	15637
WOODWARD	12.10	0	0

*A - 1976 composite assessment rate percent.

**B - Percentage increase in assessment rate necessary to comply with equalization program.

***C - Change in locally assessed value in thousands necessary to comply with equalization program.

This gives the total use value of the sample parcels. Dividing the total assessed value of the parcels in the sample by the estimated productive or use value yields the assessment ratio for agricultural land. This estimated ratio is then aggregated with the estimated ratios for other categories of property to give the composite ratio which is the basis for the equalization program.

The above procedure is being employed by the OTC to estimate the assessment ratio of agricultural land in each county. The productivity index maps for each county which are being developed by the OTC will be made available to county assessors as soon as they are complete. There is no requirement that individual county assessors must use this procedure in appraising agricultural property. Several assessors already use a program similar to that described above; however, most do not. Your county assessor can explain the specific procedures he or she is using to implement the use valuation program.

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