DEPARTMENT OF REVENUE - PROPERTY/SPECIAL TAXES DIVISION

SUMMARY OF THE ASSESSMENT PROCESS

Quick Read

Assessors consider three approaches to value when assessing property - cost, income and sales (market).

Market value is defined as "the cash price a property would bring in a competitive and open market."

Mass appraisal is defined as "the process of valuing the worth of a universe of properties, as of a given date (in SD, November 1st), in uniform order, utilizing a common reference for data and allowing for statistical testing."

Assessors use a sales ratio generally and comparable sales specifically to mass appraise property within a geographic area.

The sales ratio compares the sale price of a property that has sold with the assessed value of that property on the assessor's books.

To use sales data for comparison purposes, the sales to assessment ratios for all property sold are arrayed in a list from lowest to highest. Then a median ratio is selected to measure the performance of the assessor in valuing similar properties generally.

One or two sales at high levels do NOT make a market. There must be a consistent and continual increase in the prices buyers are willing to pay for property in a tax jurisdiction before assessments begin to rise generally.

South Dakota uses a market approach to assess property. Each assessor considers three approaches to value - cost, income and sales (market) - with the final value approximating full and true market value for the property. In fact, when each of the three approaches to value is applied and sufficient and reliable information is available, each method will arrive at a value closely approximating the market value for a property. Market value is defined as "the cash price a property would bring in a competitive and open market. In such a market, sufficient time has been allowed for a sale; the buyer and seller are not subject to undue pressure; and both are well informed."

Appraising property in the public setting is an exercise in mass appraisal which is defined as "the process of valuing the worth of a universe of properties, as of a given date, in uniform order, utilizing a common reference for data and allowing for statistical testing." The given date in South Dakota is November 1st.

All property assessments begin with base numbers. With AG property, the assessor starts with a countywide dollar per acre, then distributes that dollar per acre based upon the quality of land. Any type of structure value begins with a base value based upon the type of construction, condition of the property and quality of the structure. These "starting points" are derived from using assessment practices and manuals prescribed by law and administrative rule. Using these "starting points", the assessor determines if there is a marketable difference between one type of property versus another type of property.

Assessors use a sales ratio (generally) and comparable sales (specifically) to mass appraise property within a geographic area. The sales ratio compares the sale price of a property that has sold with the assessed value of that property on the assessor's books. The more alike the two values are, the better the level of assessment. To use sales data for comparison purposes, the sales to assessment ratios for all property sold are arrayed in a list from lowest to highest. Then a median (exact middle) ratio is selected to measure the performance of the assessor in valuing similar properties generally. Use of a median rather than an average (arithmetic mean) reduces the effect of sales at the extreme edges of an array, diminishing the impact of those sales and maintaining greater consistency when using sales data to measure the value of similar property.

The cumulative effect of rising sales prices eventually increases the value of surrounding property in the same jurisdiction. One or two sales at high levels do **not** make a market. Just because one person builds a million dollar home in your area or a wealthy out-of-stater buys a parcel of AG land to hunt on does not consequently raise everyone's valuations. There must be a consistent and continual increase in the prices buyers are willing to pay for property in a tax jurisdiction before assessments begin to rise generally. To derive a valid basis for comparison, there must be enough sales of similar properties to establish a market pattern. All sales must be at arms-length and there must be a sufficient number of sales within a reasonable timeframe in order to make such a comparison valid.

Quick Read

The use of comparable sales of property to adjust or reappraise real property is the basis for all appraisal, reappraisal or market value estimates.

The number of sales used to justify an increase or decrease in property is the key to how good one's appraisals can be. That number varies with each type of property being appraised.

Appraisers and Directors of Equalization use two tools to benchmark their performance: the sales to assessment ratio study and the coefficient of dispersion.

To determine a sales to assessment ratio, divide the assessed value of a property by the actual selling price of that property.

A median sales ratio of 85% is the minimum acceptable percentage; a median sales ratio of 90% or higher is desirable since this assures that properties are valued very near their market value.

The coefficient of dispersion is a statistical tool used to measure the uniformity of assessments. In South Dakota, the maximum coefficient of dispersion is set at 25% but appraisers desire a level no greater than 15 assuming there are enough sales available for statistical validity.

Notices of assessed value are sent to property owners in South Dakota on March 1st. Tax bills containing taxable values are sent to taxpayers on January 1st the following year.

When patterns of value become evident, they are applied to individual properties and adjustments are made to those properties reflecting both the pattern and the individual characteristics of the property. The advance of the market generally affects all properties but the effect is gradual and reflects the movement of the mass market, protecting individuals from extreme volatility, and attempting to ensure fair and equitable treatment between new buyers and established owners.

The use of comparable sales of property to adjust or reappraise real property is the basis for all appraisal, reappraisal or market value estimates. The appraiser/assessor does not make the market but has to depend on sales to interpret it. One sales does not make the market, but when properties of similar types, grades or qualities do sell, it gives an indication of the increase or decrease in the value of other similar properties. The number of sales used to justify an increase or decrease in property is the key to how good one's appraisals can be. That number varies with each type of property being appraised. The problem with using the median to judge all properties is very clear. The median is the only number that is not calculated; rather, it is just the middle of a set of numbers. Overall percentage adjustments will improve the median but will not equalize the properties. The average increase over the years of 6% per year is also a dangerous number to use. Some property types have gone up 18% while others have only gone up 3% over the years. Sales of similar properties must be used to gauge the increase of all like properties.

Appraisers and Directors of Equalization use tools to benchmark their performance. Two tools used in this state are the **sales to assessment ratio study** and the **coefficient of dispersion.**

Sales to Assessment Ratio

To determine a sales to assessment ratio, divide the assessed value of a property by the actual selling price of that property. The result is expressed as a percentage. The percentage from each sale in a jurisdiction is listed from lowest to highest and the median (middle) value is found. A median sales ratio of 85% is the minimum acceptable percentage; a median sales ratio of 90% or higher is desirable since this assures that properties are valued very near their market value. Thus, property owners may more easily and reliably determine if their property is fairly valued compared to the market value for the property and compared to other properties that are similar to theirs in the taxing jurisdiction.

Coefficient of Dispersion

The coefficient of dispersion is a statistical tool used to measure the uniformity of assessments. Average deviation tells how much, on average, the sales ratios for individual properties differ or range apart from the median sales ratio. To find the average deviation, add the number of percentage points by which each individual sales ratio differs or varies from the median sales ratio and divide by the number of individual sales. The coefficient of dispersion is found by taking the average deviation and dividing it by the median. South Dakota law sets the maximum coefficient of dispersion at 25% but appraisers desire a level no greater than 15 assuming there are enough sales available for statistical validity. South Dakota law establishes 15 sales as a minimum number of sales to insure validity.

South Dakota establishes a taxable value by adjusting all property values in a jurisdiction to show an overall sales to assessment ratio of 85%. This value becomes the value that is subject to the actual tax levy and should not be confused with the assessed value that is used for equalization purposes. Notices of assessed value are sent to property owners on March 1st. Tax bills containing taxable values are sent to taxpayers on January 1st the following year.