oppaga

Progress Report

July 2004 Report No. 04-46

The Department of Revenue Has Begun Updating Its Guidelines for Assessment of Billboards

at a glance

The Department of Revenue has taken action to address the recommendation made in a 2002 OPPAGA report. The department is currently in the process of changing its county property appraiser guidelines to include a revised depreciation schedule that better reflects the useful life of a modern billboard structure.

Scope

In accordance with state law, this progress report informs the Legislature of actions taken by the Department of Revenue in response to a 2002 OPPAGA report.[1,2] This report presents our assessment of the extent to which the department has addressed the findings and recommendations included in our report.

Background

County property appraisers assess the value of property and place it on the county tax roles. Local governments use these assessments to determine the ad valorem taxes property owners must pay.

Two types of property are subject to taxation—real property and tangible personal property used in businesses. Real property refers to land, buildings, fixtures, and all other permanent improvements to land. Tangible personal property can be moved without damaging the item or real property, and includes business equipment such as computers, machinery, or furniture but excludes vehicles, inventory, and household goods.

Billboards are considered property that is subject to ad valorem taxation. While the exact number of billboards statewide is unknown, the Florida Department of Transportation maintains a database that includes 14,843 billboard structures located on state highway system roads. Because Florida has a relatively large number of billboards, it is important that they be assessed on an equitable basis among counties.

There are three methods that could be used to assess the value of billboards:

- the cost approach, which involves estimating the cost of replacing a billboard less an allowance for depreciation;

[1] Section 11.45(7)(f), *F.S.*

[2] *Special Review: Property Appraisers Use Cost Approach to Value Billboards; Guidelines Need Updating,* OPPAGA Report No. 02-69, December 2002.

- the sales approach, which involves estimating the value by comparing the subject billboard to the prices for similar billboards that have recently sold; and
- the income approach, which involves estimating the net income expected from a billboard and capitalizing that net income over a period of time.

The Department of Revenue supervises county property appraiser activities to ensure that all property, both real property and tangible personal property, is placed on county tax rolls and uniformly assessed at just value.[3] The department has developed guidelines to assist county property appraisers in appraising tangible personal property including billboards.[4]

Prior Findings

Property appraisers consistently classified billboards as tangible personal property and used the cost approach to assess their value

Our 2002 report concluded that all 66 county property appraisers who assessed billboards classified them as tangible personal property rather than real property because billboards can be moved without damaging the structure and are often located on leased land.

Further, all of these county property appraisers used the cost approach to value billboards. The sales approach was not used because the sale price of individual billboards was difficult to obtain. Billboards usually were sold as groups so that a buyer could attain a desired amount of advertising coverage in a geographic area. Thus, there were no public records of the sale price of individual billboards. The income approach was not used because outdoor advertising companies considered income data from individual billboards to be proprietary and did not report it to the county property appraisers. Outdoor advertising companies contended that divulging such income data would provide an advantage to competitors.

Florida property appraisers' practice of classifying billboards as tangible personal property was consistent with the practices of eight other states we contacted.[5] Furthermore, like Florida, seven of these states used the replacement cost approach to assess billboards for ad valorem tax purposes. The remaining state, Pennsylvania, did not appraise billboards because the state did not have a tangible personal property tax.[6]

Property appraisers used a wide range of depreciation schedules and residual values to assess billboards

When appraising billboards, county property appraisers used schedules that specified the number of years a billboard is to be depreciated and its residual value.[7] We found wide variation among county property appraisers in the number of years they used to represent the useful life of a billboard for depreciation purposes. Depreciation schedules ranged from 9 to 40 years, with 20 years as the period used most frequently (39 counties).

---

[3] Florida courts have defined "just value" as the fair market value of property, reflecting the amount that an individual willing but not obligated to buy, would pay to someone who was willing but not obligated to sell.

[4] Florida law (s. 195.032 and 195.062, *F.S.*) directs the Department of Revenue to develop standard measures of value containing guidelines to assist the county property appraisers in valuing property. However, the standard measures of value do not establish the just value of any property, are to be used only to assist the county property appraisers, and do not have the force and effect of rules.

[5] These states included Alabama, California, Georgia, North Carolina, New York, Pennsylvania, South Carolina, and Texas. These states were selected to allow us to compare Florida county property appraisers' methods to those used in other populous states and other Southern states.

[6] In Pennsylvania, outdoor advertising companies pay a gross receipts tax on the revenue they receive from billboard advertising. In addition, the party owning the land on which the billboard is located pays a higher ad valorem tax due to the income they receive from the billboard company for leasing the property.

[7] Depreciation is used to measure the loss in value of a property over its useful life. The residual value represents the value of a property remaining after it has been depreciated.

There was also wide variation among the county property appraisers in how they calculated the residual value of billboards at the end of their useful life. Residual values ranged from 0%, in which a billboard was considered to have no value after depreciation, to 40% of the billboard's estimated replacement cost. Two-thirds of the county property appraisers (44 counties) used a 20% residual value in assessing billboards. (See Exhibit 1.)

Exhibit 1
County Property Appraisers that Appraised Billboards Used a Wide Range of Depreciation Schedules and Residual Values[1]

Depreciation Schedules		Residual Values	
Years	Counties	Percentage	Counties
9	1	0.0%	1
10	15	16.0%	1
12	3	20.0%	44
15	1	21.0%	1
20	39	30.0%	11
25	2	30.4%	1
30	3	31.0%	3
35	1	40.0%	4
40	1		
	66		66

[1] Florida has 67 counties. Lafayette County is excluded from the exhibit because it reported that it had no billboards.
Source: OPPAGA survey of county property appraisers.

As a result of these variations, billboards may not have been assessed on an equitable basis among the counties. We illustrated this by the example of two identical billboards located in different counties that were both 10 years old with a replacement cost value of $50,000. If County A used a 10-year depreciation schedule and 20% residual value, and County B used a 30-year depreciation schedule and a 30% residual value, the billboard in County A would have a taxable value of $10,000 while the billboard in County B would have a taxable value of $36,000 at the end of 10 years. If both counties had a tax rate of 10 mills, the billboard owner in County A would pay $100 in ad valorem taxes while the billboard owner in County B would pay $360. Hence, the billboard owner in County B would pay 260% more in ad valorem taxes.

We also found that although the Department of Revenue had developed guidelines to assist county property appraisers in appraising billboards, most counties were not following these guidelines. The department's guidelines recommended that county property appraisers depreciate billboards for 20 years and use a residual value of 20%. However, only 27 county property appraisers reported that they used both the department's recommended depreciation period and residual value in appraising billboards.

A related problem was that the department's depreciation schedules and residual values guidelines were based on outdated data. For example, the recommended depreciation schedule (20 years) and residual value (20%) in the department's guidelines were taken from tables published by Marshall & Swift, a private company that provides appraisal information. These tables were based on information from surveys of billboard companies conducted by the U.S. Department of the Treasury in the late 1970s and published in the early 1980s. However, large monopole billboards, which represent the most common type of billboard currently being used in Florida, were just beginning to be used in the 1970s.[8] Representatives of three companies that manufacture billboards told us that metal monopole billboards should have a useful life of 40 to 70 years if properly constructed and maintained. Thus, the useful economic life of large monopole billboards was not reflected in the department's tables.

Some other states have developed depreciation schedules and residual values that are more applicable to contemporary billboard structures. For example, North Carolina's guidelines include a 40-year

[8] A monopole is a billboard structure having a single steel pole as the primary support.

depreciation schedule for steel structure billboards and a 35% residual value. [9]

We recommended that the Department of Revenue revise the depreciation schedule and residual values provided in its tangible personal property guidelines to better reflect the useful life span of modern billboard structures.

Current Status

The department has taken steps to address our recommendations. In March 2003, the department contracted with a consultant to provide recommendations for updating the depreciation schedule in the department's appraisal guidelines. The consultant recommended the department change its guidelines to extend the depreciation schedule for billboards from 20 to 35 years.

The department plans to begin the process of revising its rules to incorporate new depreciation guidelines in September 2004. These new guidelines, once adopted, should help county property appraisers equitably assess billboards and produce appraisals that better reflect the useful life span of modern billboard structures. If county property appraisers used a 35-year depreciation schedule to appraise billboards, assessments of billboards would be expected to increase in most counties. As shown in Exhibit 1, 64 of 66 county property appraisers used depreciation schedules of less than 35 years in appraising billboards.

[9] These guidelines were developed in 1988 through a collaborative effort involving the North Carolina Department of Revenue, property appraisers, and the outdoor advertising industry in that state.

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475).

Florida Monitor: www.oppaga.state.fl.us/

Project supervised by Tom Roth (850/488-1024)

Project conducted by William G. Howard II (850/487-3777)

Gary R. VanLandingham, OPPAGA Interim Director