Property Appraisers Use Cost Approach to Value Billboards; Guidelines Need Updating

at a glance
Almost all (66 of 67) Florida county property appraisers assess billboards for ad valorem tax purposes and classify them as tangible personal property. Those that appraise billboards use the replacement cost approach to determine value. Most (63) also use the replacement cost approach to value similar types of commercial businesses on leased land. These appraisal methods are similar to those used by other states we contacted.

Florida county property appraisers use a variety of depreciation schedules in estimating billboard value. Although the Department of Revenue has developed guidelines that include recommended depreciation schedules, the guidelines are outdated and are followed by only 27 counties. This raises concern as to whether billboards are being equitably appraised throughout the state.

The department should adopt new appraisal guidelines for appraising billboards that include up-to-date depreciation schedules and residual values.

Purpose
In accordance with a directive by state law, this report examines how Florida county property appraisers value offsite signs or billboards for ad valorem tax purposes.  

1 Chapter 2002-13, Laws of Florida, directed OPPAGA to conduct a study of the value of offsite signs in relation to, and in comparison with, the valuation of other commercial properties for ad valorem tax purposes, including a comparison of tax valuations from other states.

2 An offsite sign is one that advertises products, services or activities not conducted or performed on the same site upon which the sign is located. An onsite sign advertises a business, product, or, service on the property where the sign is located. A billboard is not an onsite sign.

State law authorizes counties, school districts, municipalities, and some special districts to levy ad valorem taxes on real and tangible personal property. Ad valorem taxes represent a major source of funding for local governments. County property appraisers assess the value of property, and local governments use these assessments to determine the ad valorem taxes property owners must pay. To ensure that taxpayers are treated equitably within and among counties, the Florida Constitution and state law require that county...
property appraisers assess property uniformly and at just value.³

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. Owners of tangible personal property used in business are required to file annual tax returns estimating the property’s fair market value. County property appraisers review these tax returns to discover if there are any errors and omissions, and place an assessed value for the property on the county’s tax rolls.

The Department of Revenue supervises county property appraiser activities to ensure that all property is placed on county tax rolls and uniformly assessed at just value. Department oversight extends to both real property and tangible personal property.

Offsite signs, or billboards, are subject to being appraised for ad valorem tax purposes. Billboards are often located on property leased from landowners. Florida has a relatively large number of billboards. While the exact number of billboards statewide is unknown, the Florida Department of Transportation maintains a database that includes 14,843 billboard structures located throughout the state.⁴ ⁵

Questions and Answers ———

Are county property appraisers assessing billboards for ad valorem tax purposes?

Almost all of Florida’s county property appraisers assess billboards for ad valorem tax purposes. Our survey of the 67 county property appraisers found that 66 reported assessing billboards for ad valorem tax purposes. Lafayette County, a small rural county, is not assessing any billboards, although the Department of Transportation database lists four billboard structures located in the county. The county property appraiser reported that his office is currently looking into this matter.

What methods are county property appraisers using to assess billboards?

All county property appraisers that appraise billboards classify 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. Each of the 66 Florida county appraisers that report appraising billboards use the replacement cost approach rather than the two other approaches—the sales approach and the income approach. The replacement cost approach involves estimating the cost of replacing a billboard less an allowance for depreciation. The sales approach involves estimating the value by comparing the subject billboard to the prices for similar billboards that have recently sold. Finally, the income approach involves estimating the net income expected from a billboard and capitalizing that net income over a period of time.

County property appraisers reported their reasoning for not using the sales or income approaches.

- Information on the sales price of individual billboards is difficult to obtain. The value of individual billboards is often unknown because billboards are usually sold in groups so that the buyer can attain a desired amount of advertising coverage in a geographic area.

- Outdoor advertising companies are not required to report rates charged for using a specific billboard. Companies contend that divulging rate information would provide an advantage to competitors.

How do the methods used to assess billboards compare to the methods used to assess other commercial businesses on leased land?

Most (63) of the county property appraisers that appraise billboards report they only use the same replacement cost approach to assess similar types of commercial tangible personal property on leased land.

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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 Federal law requires the Florida Department of Transportation to issue permits for billboards located within 660 feet of the right-of-way of all portions of an interstate or federal-aid primary highway or those portions of the state highway outside a municipality.

⁵ The department’s database does not include billboards located on local roads that are not part of the state highway system. Due to the decentralized nature of related data, it is prohibitively complex to precisely determine how many billboards exist in Florida.
Three property appraisers reported that they usually use the cost approach to assess similar types of commercial tangible personal property, but also will use the income approach when sufficient information is available.

**How do Florida’s practices for assessing billboards compare to other states?**

Eight other states we contacted classify billboards as tangible personal property, the same policy followed by Florida’s property appraisers. Seven of these states also use the replacement cost approach to assess billboards for ad valorem tax purposes. The remaining state, Pennsylvania, does not appraise billboards because the state does not have a tangible personal property tax.

**How can the approaches used to appraise billboards be improved?**

Florida’s methods of appraising billboards could be improved by developing consistent depreciation schedules and residual values. This would help ensure equitable appraisals of billboards among the counties.

**Depreciation schedules vary widely**

When appraising billboards, county property appraisers use schedules that specify the number of years a billboard is to be depreciated and its residual value. There is wide variation among county property appraisers in the number of years they use to represent the useful life of a billboard for depreciation purposes (range from 9 to 40 years) with 20 years as the period preferred most frequently and used by 39 counties. There is also wide variation among the county property appraisers in how they calculate the residual value of billboards at the end of their useful life, ranging from 0%, in which the billboard is considered to have no value after depreciation, to 40% of the billboard’s estimated replacement cost. Well over half (44) apply a 20% residual value. (See Exhibit 1.)

**Exhibit 1**

<table>
<thead>
<tr>
<th>Depreciation Schedules</th>
<th>Residual Values</th>
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<tbody>
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<td><strong>Years</strong></td>
<td><strong>Counties</strong></td>
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<tr>
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<td>1</td>
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<td>1</td>
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<tr>
<td><strong>Total:</strong> 66</td>
<td><strong>Total:</strong> 66</td>
</tr>
</tbody>
</table>

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

As a result of these variations, billboards may not be assessed on an equitable basis among the counties. This can be illustrated by two identical billboards located in different counties that are both 10 years old with a replacement cost value of $50,000. If County A uses a 10-year depreciation schedule and 20% residual value, while county B uses a 30-year depreciation schedule and a 30% residual value, the billboard in County A will have a taxable value of $10,000 while the billboard in county B will have a taxable value of $36,000 at the end of ten years. If both counties have 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 in taxes.

Although the Department of Revenue has developed guidelines to assist county property appraisers in appraising tangible personal property, including billboards, most counties are not following these guidelines. The department’s guidelines recommend that county property appraisers

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6 Examples of these other commercial properties included cellular phone towers and portable buildings.

7 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.

8 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.

9 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.

10 Florida law (ss. 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 and are to be used only to assist the county property appraisers.
Special Review

depreciate billboards for 20 years and use a residual value of 20%. However, only 27 county property appraisers reported that they use both the department’s recommended depreciation period and residual value in appraising billboards.

A related problem is that department guidelines are outdated. The depreciation schedules and residual values 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. 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. Consequently, the department’s recommended 20-year depreciation schedule is not applicable to contemporary billboard structures. In contrast, the state of North Carolina has developed guidelines recommending a 40-year depreciation schedule for steel structure billboards and a 35% residual value.

To help promote equitable billboard appraisals, we recommend that the Department of Revenue revise the depreciation schedule and residual values provided in its current tangible personal property guidelines to better reflect the useful life span of modern billboard structures. The department should develop these revisions in consultation with the county property appraisers and the outdoor advertising industry. As noted previously, the department’s guidelines presently recommend a 20-year depreciation schedule for billboards and a residual value of 20%.

Agency Response

In accordance with the provisions of s. 11.51(5), Florida Statutes, a draft of our report was submitted to the executive director of the Department of Revenue for his review and response.

In his written response, the executive director concurred with our recommendations and stated the department would work with county property appraisers and the outdoor advertising industry to make the revisions recommended in our report. The department’s response can be viewed in its entirety as an addendum to our electronic document through our website.

Conclusions and Recommendations

All but one of Florida county property appraisers assesses billboards for ad valorem tax purposes. The 66 that assess billboards classify them as tangible personal property and use the replacement cost approach to determine value. Appraisers use a wide variety of depreciation schedules in estimating a billboard’s value. Although the Department of Revenue has developed guidelines that include recommended depreciation schedules and residual values, the guidelines are outdated and are used by only 27 counties. This raises concern as to whether billboards are being equitably appraised throughout the state.

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December 17, 2002

Mr. John W. Turcotte, Director
Office of Program Policy Analysis and Government Accountability
Room 321, 111 W. Madison Street
Tallahassee, FL 32399-1475

Dear Mr. Turcotte:

We have reviewed the preliminary findings and recommendations of your special review of the property appraisers' assessment method for valuing offsite signs in relation to the valuation of other commercial properties for ad valorem tax purposes, including a comparison of tax valuations from other states.

We met with your staff on December 6, 2002 to discuss the findings of your special review. Your report concluded and recommended that the Department of Revenue revise the depreciation schedule and residual values provided in its current Tangible Personal Property Guidelines to better reflect the useful life span of modern billboard structures. We concur with your recommendation.

The Department will work with the county property appraisers and the outdoor advertising industry to determine appropriate Tangible Personal Property Guideline revisions addressing the recommendations in OPPAGA's special review.

We appreciate the professionalism displayed by your staff during this review. The Department's staff and I look forward to working with your staff in making improvements to our oversight responsibility for Florida's ad valorem tax rolls. If further information is needed, please contact Fred Roche, our Inspector General, at 488-4328.

Sincerely,

Jim Zingale