CASE STUDY

MEASURING OBSOLESCENCE OF A DINOSAUR BUILDING

Depreciation study achieves a dramatic reduction in property tax value

Background

A major food ingredients manufacturer was facing increased corporate scrutiny for lowering its costs on an extremely large, obsolete facility with construction dating back to the early 1900's. Their local property tax represented a substantial, rising expense to the operation because of several factors including:

1. Aggressive local reassessment practices and methodologies
2. Sizable plant footprint
3. Historical investment magnitude of building and equipment
4. High effective property tax rate which represented a significant burden for all local businesses.

Therefore, a mitigation plan was warranted. The company had initiated several years of property tax appeals which were pending at the state and local level. Due to the large financial stake, the company required an extensive support plan to position their appeals with the greatest chance of successful resolution.

Providing the Solution

JM Tax Advocates (JMTA) worked closely with company tax, legal counsel, and facility leaders to build an agreed upon plan that centered around documenting all forms of physical, functional, and economic obsolescence depreciation. The study focused mainly on deficiencies that stemmed from the extreme age, inefficient layout design, and changing construction material standards to help measure "super-adequacy" of the subject property features. Over a twelve-month period, JMTA created a thorough report of findings along with procuring an independent appraisal as a second analysis approach. These deliverables became primary tools for holding the assessor accountable to bring their assessment in line with reality. After several arbitration hearings with local assessing official representatives, all pending appeals were successfully resolved without the need for further expense or litigation.

Secured Results = 46% Reduction in Taxes

Five years of pending assessments were lowered from $15 million to $7 million which represented a **46% reduction** and as a result, the company realized an economic benefit of **$1.7 million** along with ongoing, annual savings of **$400,000**.

Reducing this company's local property taxes was a big step in the right direction for rightsizing its annual operating costs, restoring its status as a cost competitive site, and not going the way of the dinosaur!

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