Comparing Revaluation Options

Presented to the Special Commission
to Study Property Revaluation

October 22nd, 2013

Rhode Island’s Reval Process

- History
  - (Pre-1979) State had no requirements for revaluation frequency
    - Some municipalities went decades between revaluations.
  - (1979-1997) The Property Tax and Fiscal Disclosure Act
    - Required that each city and town undertake a complete reappraisal of all property at least once every ten years.
  - (1997-present) RIGL 44-5-11.5 & 11.6
    - 9 Year - 3/3/3 Model –
      - One physical followed by two statistical revaluations.
    - Legislative findings:
      - “Infrequent revaluations translate into disparities in property tax burden between types and classes of property within and among cities and towns.”
      - “It is the intent of the general assembly to ensure that all taxpayers in Rhode Island are treated equitably. The more frequent the revaluation, the greater the equity within and among jurisdictions.”

Rhode Island's Reval Process

- Recent Proposals –
  - In 2008, three bills dealing with RI's revaluation frequency were introduced.
    - 10/5 – 10 year physical, with a statistical after 5 years.
    - 8/4 – 8 year physical, with a statistical after 4 years.
    - 12/4/4 – 12 year physical, with two statistical at 4 year intervals.
  - RIPEC endorsed "8 /4" legislation:
    - "This legislation would reduce the cost of two statistical updates in a six year period, but would still provide for a timely comprehensive revaluation."

Sample Revaluation Frequency by State

State	Reval Frequency	Notes:
Colorado	2 years	Physical reval not required
Connecticut	5 years	Physical reval done at least every 12 years
DC	Annually	Physical reval only of portion of properties
Massachusetts	3 years	Many cities opt to do statistical reval annually
Michigan	Annually	Physical reval not required
New Hampshire	5 years	Only physical reval required
Oregon	Annually	Physical reval not required
Pennsylvania	No requirement	
Washington	4 years	Only physical reval required
Wisconsin	5 years	Only physical reval required

Other Assessment Models

- Four models used around the U.S. that attempt to “smooth over” the issues caused by revaluations.
  - Assessment Phase-Ins
  - “Share of the Pie” Approach
  - Levy Limit in Revaluation Years
  - California/Acquisition Model

Assessment Phase-In Programs

- Basics
  - Difference between old and new assessments applied to tax bill slowly over years between revaluations.
  - Example:

2012 Assessed Value	2013 Assessed Value	2013 Taxable Value	2014 Taxable Value	2015 Taxable Value
$100,000	$130,000	$110,000	$120,000	$130,000
$250,000	$340,000	$280,000	$310,000	$340,000
$150,000	$120,000	$140,000	$130,000	$120,000

Assessment Phase-In Programs

- Maryland –
  - Three years between revaluations.
  - Phased in equally over three years (33% per year).
- Montana –
  - Six years between revaluations.
  - Phased in equally over six years (16.67% per year).
- Connecticut –
  - State gives municipalities phase-in option.
  - Five years between revaluations.
  - Assessments must be phased-in by at least 25% per year.

Imaginary City Revaluation Without Phase-In

Imagine a city with only three properties and needs to raise $20,000 in property tax revenue.

Property	2012 Assessment	2012 Rate	2012 Levy
A	$100,000	$40/thousand	$4,000
B	$250,000	$40/thousand	$10,000
C	$150,000	$40/thousand	$6,000
TOTAL:	$500,000		$20,000

Because the total assessment increased, to hold the levy constant, the rate must decrease.

Property	2013 Assessment	2013 Rate	2013 Levy
A	$130,000	$33.90/thousand	$4,407
B	$340,000	$33.90/thousand	$11,525
C	$120,000	$33.90/thousand	$4,068
TOTAL:	$590,000		$20,000

Imaginary City Revaluation With Phase-In

Property	2012 Assessment	2012 Rate	2012 Levy
A	$100,000	$40/thousand	$4,000
B	$250,000	$40/thousand	$10,000
C	$150,000	$40/thousand	$6,000
TOTAL:	$500,000		$20,000

With the phase-in, the total assessment increased, but not as much as it would have without the phase-in, resulting in a rate lower than the previous year but higher than if there had been no phase-in.

Property	2013 Taxable Value	2013 Rate	2013 Levy
A	$110,000	$37.74/thousand	$4,151
B	$280,000	$37.74/thousand	$10,567
C	$140,000	$37.74/thousand	$5,283
TOTAL:	$530,000		$20,001

Imaginary City Revaluation Phase-In vs. No Phase-In

Replicating the same type of analysis for the next two tax years and continuing to hold the total levy constant, gives the following results:

Tax Bills Without Phase-In				
Property	2012	2013	2014	2015
A	$4,000	$4,407	$4,407	$4,407
B	$10,000	$11,525	$11,525	$11,525
C	$6,000	$4,068	$4,068	$4,068

Tax Bills With Phase-In				
Property	2012	2013	2014	2015
A	$4,000	$4,151	$4,286	$4,407
B	$10,000	$10,567	$11,071	$11,525
C	$6,000	$5,283	$4,643	$4,068

“Share of the Pie” Approach

- Divide all properties into classes and limit each class’s growth as a proportion of the tax base.
  - Colorado –
    - Residential portion of statewide tax base permanently held at 45%.
  - New York City & Nassau County –
    - Residential portion of tax base taxed at lower percentage of fair market value.
- Doesn’t directly address revaluation, but does increase predictability.

“Share of the Pie” Approach

In New York City, all properties are divided into one of four classes:

Class 1	One- to three-family structures, vacant residential land, and small co-op and condominium apartment buildings
Class 2	Residential rentals, co-ops, and condos
Class 3	Utilities
Class 4	All commercial and manufacturing properties in the city, including major office buildings

Fiscal Year 2008 Values and Taxes

	Class 1	Class 2	Class 3	Class 4
TAX LEVY ($)	$2.1 billion	$5.3 billion	$1.0 billion	$5.9 billion
PORTION OF CITYWIDE TAX LEVY	15%	37%	7%	41%
MARKET VALUE	$427 billion	$176 billion	$20 billion	$174 billion
PORTION OF CITYWIDE MARKET VALUE	54%	22%	2%	22%

Source: City of New York, Department of Finance, Office of Tax Policy

Levy Limit in Revaluation Year

- Some states and municipalities have instituted caps on the amount the property tax levy can be increased in a revaluation year.
- Mainly in places with longer periods in between revaluations.
- Seeks to limit the impact of large swings in assessments.
- RI already has 4% levy cap every year from Paiva-Weed legislation passed in 2007.

Levy Limit in Revaluation Year

Delaware Example:

- Revenue increase in reval year limited to 15%
  - Total countywide property tax revenue cannot exceed 15% of the revenue from the year before the revaluation.
  - Does not include increases caused by new construction.
- Counties choose when to reval
  - No state requirement on frequency.
- "Truth in Taxation"
  - Taxpayers must be informed of both the new rate and the "Roll Back Rate," defined as the rate which would hold revenue constant.
  - Adds hurdles making it harder for legislatures to raise rate above "Roll Back Rate."

The California Model

- Proposition 13 (1978)
  - CA voters approved a measure that ended requirement for periodic revaluations.
  - Taxable values increase with the CPI, but not by more than 2% per year.
  - If market value drops below taxable value, market value is used.
  - Change in ownership triggers reassessment at market value; Assessment "pops up" to the new purchase price.
- Similar laws on the books in:
  - Arkansas, Arizona, Florida, Maryland, Minnesota, New Mexico, Oklahoma, Oregon, and Texas.
  - Illinois offers municipalities the option to cap assessment growth at 7% per year.
  - New York City and Nassau County have limitations of residential assessment growth.

Examples of Horizontal Inequity in The California Model

Over time, identical homes can have very different assessment s, and therefore pay very different tax bills, depending on when they were last sold.

Year Sold	1978 Assessment	1990 Mkt. Value	1990 Assessment	2005 Mkt. Value	2005 Assessment	2005 Tax
1978	$100,000	$275,903	$126,824	$761,226	$170,689	$1,707
1990	$100,000	$275,903	$275,903	$761,226	$371,329	$3,713
2005	$100,000	$275,903	$126,824	$761,226	$761,226	$7,612

Source: Lincoln Land Institute, 2008

Imaginary City Under California Model

- Below we see how using the California Model would affect our imaginary city and its tax base.

Property	2012 Assessment	2013 Market Value	2013 Taxable Value
A	$100,000	$130,000	$101,700
B	$250,000	$340,000	$254,250
C	$150,000	$120,000	$120,000
Total	$500,000	$590,000	$475,950

Imaginary City Under California Model

- Using 2012 as a base year, holding the total levy constant, and assuming no property changed owners.

Tax Bills Without California Model		
Property	2013 Assessment	2013 Tax (rate=$30.39)
A	$130,000	$4,407
B	$340,000	$11,525
C	$120,000	$4,068
Total	$590,000	$20,000

Tax Bills With California Model		
Property	2013 Taxable Value	2013 Tax (rate=$42.02)
A	$101,700	$4,273
B	$254,250	$10,684
C	$120,000	$5,042
Total	$475,950	$20,000

Recap/Discussion

- RI’s Revaluation Process
- Other Models
  - Assessment Phase-Ins
  - “Share of the Pie” Approach
  - Levy Limit in Revaluation Years
  - California/Acquisition Model
- Discussion