

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 | | | | |
|----------------------------|-------------|-------------|-------------|-------------|
| <u>Property</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
| 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 | | | | |
|-------------------------|-------------|-------------|-------------|-------------|
| <u>Property</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
| 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 | | | | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| | <u>Class 1</u> | <u>Class 2</u> | <u>Class 3</u> | <u>Class 4</u> |
| 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 assessments, 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 | | |
|------------------------------------|------------------------|--------------------------------|
| <u>Property</u> | <u>2013 Assessment</u> | <u>2013 Tax (rate=\$30.39)</u> |
| 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 | | |
|---------------------------------|---------------------------|--------------------------------|
| <u>Property</u> | <u>2013 Taxable Value</u> | <u>2013 Tax (rate=\$42.02)</u> |
| 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