REVALUATION EXPLAINED

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Revaluation Purpose Overview

A revaluation is the process of performing ad valorem (for *the purpose of taxation)* appraisals of every parcel in a municipality or taxing district for the purpose of tax equalization. Upon the acceptance by the Assessor of all the appraised values, the values become assessments. The certification of the Assessment Roll becomes the new basis for calculation of the total value of all taxable property in that municipality or taxing districts. The mill rate, which is calculated by dividing the budget total by the assessment total (the worth of all taxable property), can then be determined. Please note that while the focus of this explanation refers to real estate, tangible property totals and excise (motor vehicles) totals are also included in the total assessment when determining the mill rate.

A revaluation is mandated by Connecticut State Statute. Previously, municipalities in the State of Connecticut were required to perform revaluations every ten years. The law has been modified to require statistical updates every Five years and full revaluations every Ten years.

The methodology and procedures for a revaluation are based on standards set forth in the Uniform Standards of Professional Appraisal Practice and The International Associations of Assessing Offices.

Ad Valorem Appraisal of Real Estate

An appraisal is an estimate of value. The appraisal of real estate is somewhere between an art and a science. Factual data is interpreted by comparison to accepted appraisal tenets and then analyzed for reasonableness. Appraisal projects for ad valorem purposes are often referred to as Mass Appraisals. The usage of the word 'mass' refers to the scope of appraisals that must be performed to complete a revaluation. The process requires the management and analysis of extensive amounts of data. The invention of the computer has lead to the development of CAMA systems, which is an acronym for Computer Assisted Mass Appraisal systems. A CAMA system incorporates statistical analysis to assist the appraiser in estimating value.

The use of (CAMA systems) computerized applications in revaluations is directly related to project costs. As in all contemporary industries computers and computer software are deemed to be most efficient tools of the trade to manage and analyze large volumes of information. The cost of performing fee appraisals on every parcel for ad valorem purposes is too prohibited to be a viable option to meet statutory requirements for real estate revaluation.

Revaluation Phases

A revaluation is a process that is conducted in phases. Many phases overlap on a time line representation. The following is a description of the phases of revaluation.

Transfer of Data Phase

The initial information required to begin the revaluation process is provided to the revaluation firm by the municipality. The revaluation company is given legal descriptions of the properties such as plat and lot numbers, street location, ownership data, state class codes, zoning codes, account numbers and other information that is maintained by the assessor's office. This information allows the revaluation firm to prepare to begin data collection.

Data Collection Phase

The data collection phase is the verification of information specific to each property other than legal descriptions. The information obtained by data collection on each property is used to form the basis in the valuation analysis of the property. The measurements of the exterior of the building are verified. The exterior condition, type of construction, the style of the building and story height of that property is determined. An attempt is made to inspect the interior of the property.

If entry is gained into a house, by permission of the owner or and an adult, a walk through inspection is performed to determine the interior condition, number of rooms, number of bedrooms, number and type of bathrooms, type of heating and cooling system. The general layout of the building is observed for its function and for its intended use. Generally, no interior measurements are taken. Measurements for analysis and comparison are all based on exterior measurements.

The interior inspection of a commercial building would also be to determine the interior condition, the intended commercial use of the building, and the actual current use of the building. Characteristics required for analysis of a commercial building are recorded, such as features necessary for the use of a building for a particular function.

Buildings or structures on the parcel but not attached to the main structure, known as improvements, are described separately on a property record card or listed as outbuildings on the property record card.

If the data collector is unable to perform an interior inspection, a reasonable estimate is made about the interior of the house or building. A second attempt is can be made to gain entry to inspect the interior of each improved property. In many revaluations, each property owner is then sent a copy of the information that was data collected about their property called a data mailer. The property owner is requested to review the information for correctness and to return it corrected where necessary. The property owner is also requested to call and make an appointment for an interior inspection if the interior information was estimated.

When a municipality is undergoing a statistical update, rather than a full revaluation, only properties that have sold within the sales analysis period are data collected. A data mailer may be sent to all property owners to attempt to maintain as correct as possible information about each property in the municipality.

Valuation Phase

The valuation phase includes the delineation of neighborhoods, the validation and analysis of property sales, the creation of valuation tables to be applied by the CAMA system, referred to as modeling, and then the valuation of each property by analysis of the appropriate approaches to value.

The assessor and the project manager determine the delineation of neighborhoods. The term neighborhood in this instance describes a geographic area which real estate characteristics respond similarly to real estate market influences and changes. Often there are natural or manmade barriers that define these areas. They may also be the same as established communities within a larger area of a municipality that are referred to by common reference or name. The purpose of the neighborhood delineation is to form a basis for *modeling*. A model is a representation that explains the relationship between value as an estimated sale price and variables representing market factors. The description of the property provides the data that a CAMA system uses to determine what a property with certain characteristics in a particular geographic area would probably sell for.

An example of neighborhood delineation would be a waterfront community located within a municipality. The houses on the water would have a market profile similar to each other but different from the other houses in that area which are not on the water. The waterfront houses could be in their own sub-neighborhood.

There are three accepted approaches to value: the Cost Approach, the Market or Sales Comparison Approach, and the Income Approach.

The cost approach is performed by valuing the land and adding to it the replacement value of the building less depreciation for age and condition.

The sales comparison approach or market approach is the comparison of the subject property (the property being appraised) to similar properties that sold and are in the sales analysis. The values of the sale properties are adjusted to reflect the inferior or superior difference in their features and characteristics to the subject property. The CAMA system performs this by statistical analysis. The market approach uses the neighborhood delineation when selecting comparable sales. The CAMA system is programmed to look first for recent sale properties within the neighborhood. The system is also programmed which other neighborhoods are similar to the neighborhood of the property being appraised. It will then look there if no comparable sales in the neighborhood of the property being appraised exist. Both the cost approach and the market approach are appropriate approaches to value of residential properties.

The income approach converts income into value by applying a conversion factor called a capitalization rate to the property's net operating income. The net operating income is the gross potential income of a property, less a vacancy rate and expenses. The potential rent, vacancy factor and expenses should be typical for the type of property in its location. Chacteristics specific to the subject property need to be considered when valuing that property. This is an appropriate approach applied for commercial property, mixed use or residential property of greater than four units along with the cost approach and the market approach.

An appraiser looks at the value conclusions of the appropriate approaches to value and performs a reconciliation of the value estimates. Reconciliation is when the appraiser considers the estimate of value conclusions of all approaches to value and decides if they represent a probable sale or market value of the property.

Notification Phase

When every property has been revalued, each property owner is notified of this proposed value which will constitute the future assessed value of that property. In Connecticut, assessed value represents 70% of a true or market value for that property as of the date of valuation. Notification is by mail. Often, the notice will include the prior assessed value as well as the proposed assessed value. The notice includes information about how to appeal the proposed value. Notification of proposed value changes can be confusing and stressful for property owners because they can not figure what their tax bill will be because a new mill rate can not be calculated until final values have been determined. As the proposed value is just that… proposed…the assessor has not accepted and certified that value as the assessed value. Therefore, an appeal can be made at an informal hearing conducted by the revaluation company or if the municipality has conducted the revaluation in-house, they would conduct the hearings. As with all appeal procedures, there are time limits in which to file within.

Informal Hearing Phase

An informal hearing is an opportunity for a property owner to get an explanation as to how his property was valued and to challenge the valuation if he feels it is unfair. The informal hearing phase is very important to the revaluation process because it is a quality control function of the revaluation. There is a considerable amount of information that is used to arrive at a final value conclusion. If factual data is erroneous or a property specific characteristic that is value bearing is unknown, the proposed valuation may not be as accurate as it could be. While taxation can be an emotional issue for many people, it is not a basis for a reduction of an assessment and is never helpful to the appeal process. If a property owner doesn't feel capable of representing himself at a hearing, they are best advised to consult with a certified appraiser rather than a real estate agent or a lawyer who may deal with real estate but are not experts at property valuation. Property valuation conclusions are opinions based on the analysis of facts and any changes to be considered must also be represented by facts. There must be reasons defendable by valuation standards to merit a change in value.

As a result of the informal hearing, values may be adjusted individually or properties may be adjusted by group (such as locational or property type) to reflect information discovered by the informal hearing process.

Final Value Acceptance

After the assessor has reviewed all of the values and is satisfied that they reflect true market value on the date of assessment and are equitable---property type to property type---then, he can accept the valuations and use them to apply assessment value conclusions to each property.

Determination of the Mill Rate

When all the taxable worth of a municipality or taxing district is known, the mill rate can be determined. The formula to calculate the mill rate in it simplest form is to take the budget total in dollars and divide it by the total assessments of all taxable property in dollars. The quotient, expressed in thousandth, is multiplied by an individual assessment to calculate the tax on that property. If the mill rate is expressed in whole dollars, the assessment is divided by 1000 and that quotient is multiplied by the mill rate in whole dollars.

For example if the mill rate is $20.00 per thousand, and the assessment is $100,000 the taxes would be $2000 for that year;
Taxes would be calculated as:
$100,000 X $0.020 = $2000(taxes) OR $100,000/1,000 X $20.00 = $2000.

If you consider the total assessments as a pie with the budget overlay on the pie, your taxes represent your piece of the cost (municipal budget) of the pie you are responsible for.

Three Approaches to Value

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Cost Approach- A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating current cost to construct a reproduction of, or replacement for, the existing structure; deducting accrued depreciation from the reproduction or replacement cost; and adding the estimated land value plus an entrepreneurial profit. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.[i]

Market Approach or Sales Comparison Approach – A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison, and making adjustments to the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when comparable sales data are available.[ii]

Income Capitalization Approach - A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and a change in the value of an investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.[iii]

The Cost Approach

	REPLACEMENT COST – IMPROVEMENTS (BUILDINGS)
LESS	**<u>(ACCRUDED DEPRECIATION – for age and condition)</u>**
PLUS	**LAND VALUE**
	VALUE CONCLUSION – COST APPROACH

SALES COMPARISON APPROACH

SUBJECT PROPERTY - Description and Features (UNITS OF COMPARISON)

COMPARABLES: **#1 +/- Units of Comparison adjusted to match subject**

#2 +/- Units of Comparison adjusted to match subject

#3 +/- Units of Comparison adjusted to match subject

RANGE OF VALUE CONCLUSIONS
BY
THE SALES COMPARISON APPROACH

INCOME APPROACH

	POTENTIAL GROSS INCOME
LESS	**(VACANCY AND CREDIT LOSS) (% OR $)**
PLUS	**MISCELLANEOUS INCOME**
	EFFECTIVE POTENTIAL INCOME
LESS	**(OPERATING EXPENSES) (% OR $)**
	NET OPERATING INCOME
DIVIDED BY	**CAPITALIZATION RATE**
	(Conversion Factor Expressed as a %)

VALUE CONCLUSION BY THE INCOME APPROACH

Categories of allowable operating expenses INCLUDE:

Insurance

Administrative Costs (for the property, not the owner) such as legal, accounting, advertising, and management fees

Repairs and maintinance costs such as snow removal, exterminating, janitor's salaries, trash collection, hardware, and supplies

Utilities such as fuel, water and electricity

Replacement expenses prorated to an annual figure.

Ad valorem taxes are included as operating expenses except when the appraisal is done to estimate an assessed value for ad valorem tax purposes. In such cases, the property tax portion of the operating cost is usually expressed as a percentage in the capitalization rate rather than as an operating expense. [iv]

RECONCILIATION OF VALUE

[i] The Dictionary of Real Estate Appraisal, 3rd edition, Appraisal Institute, p.81
[ii] The Dictionary of Real Estate Appraisal, 3rd edition, Appraisal Institute, p.318

[iii] The Dictionary of Real Estate Appraisal, 3rd edition, Appraisal Institute, p.178

[iv] Property Appraisal and Assessment Administration, IAAO, p.235