

Revaluation Explained and Three Approaches to Value

The purpose for a Town-wide Real Estate Mass Appraisal (Revaluation) is to re-equalize the tax burden among all land owners due to the ever changing real state markets. The number of markets within a Town are many, i.e., each house style has its own market for example, and over time they change for reasons of; economic, interest rates, style popularity, new construction, land size, etc. The market values determined by a revaluation, as of 10/1/xxxx, are a snapshot in time, for that day. Subsequently, the assessment multiplied by the mill rate of any given year equals tax owed. The mill rate is the answer to the equation; Net Budget divided by the Net Grand List equals mill rate (tax rate).

Example: 30.52 Mills converted to a multiplier, .03052 x assessment = tax.

The Net Budget is the entire amount needed to operate the town, less any/all grants, reimbursements, etc. Note: in 2014, the state halted the reimbursements for MM&E and the Elderly exemptions. This increased all Towns' budgets.

The Net Grand List is the entirety of assessments (Real Estate, Personal Property & Motor Vehicle) less exemptions applied for Veterans, Elderly, Manufacturing Machinery & Equipment (MM&E), as well as the property exemptions exclusively used for; scientific, educational, literary, historical or charitable purposes.

Ad Valorem

The Latin phrase ad valorem means "according to value." So all ad valorem taxes are based on the assessed value of the item being taxed, i.e., real estate, personal property, and motor vehicle. Real estate is revalued every 5 years. Personal property & motor vehicles are revalued every year.

Ad valorem taxation is one of many results of the Boston Tea Party. Taxes are generally levied on real property, personal property, such as cars and horses.

(Historically, boats and personal aircraft were taxed by the jurisdiction it was docked/moored or hangared in, as of 10/01, until the State took over taxing them. Before that, it was cows and other livestock).

A Town-wide Revaluation is mandated by Connecticut General Statute 12-62. Previous to 2001, municipalities in Connecticut were required to perform an ad valorem based revaluation every ten (10) years. The law was modified in 2001 to require non-physical updates after every four (4) years following a full physical revaluation.

In 2005, The law was modified again to require non-physical updates after every five (5) years following a full physical revaluation every other 5 years. In 2015, Hamden went through a full physical revaluation. Hamden has completing a non-physical revaluation for Oct. 1, 2020.

Data mailers were utilized in Hamden. They have been allowed since 2001, in-lieu of an on-site interior inspection. Although, any discrepancies found in data mailers returned (Approx. 80%+ for Hamden 2020), would cause an on-site inspection attempt. However, the law mandates an exterior and interior inspections at least once every ten years.

If the data collector is unable to perform an interior inspection, the existing information is used. A educated estimate is made regarding the interior condition of the house or building. A Data Mailer would be sent to the property owner and is requested to review the information for correctness, make any corrections needed or if correct, leave as is, sign it and return it. The property owner is also requested to call and make an appointment for an interior inspection if the interior information is incorrect (The Covid-19 Pandemic may delay any interior inspections but hopefully not for long for all).

Valuation Phase

Sales Sales Sales! All analyses are performed on the sales population only. The more valid sales there are in the one year prior to the date of valuation (Oct 1), and hopefully scattered in all areas of town, the more accurate the analyses will be. All elements of mass valuation is derived by "Arms length transacted sales".

The residential valuation phase includes a gambit of analyses, from the delineation of neighborhoods and land values, to how much a fireplace or an extra bath contributes to the total house value, to how much a pool contributes to the total property value, using multiple regression analysis. the analysis of property value influences, both detrimental and attributional are derived from sales, the creation of valuation and depreciation tables, to be applied by the CAMA system, referred to as modeling, and then the valuation of each property by analyses of the appropriate approaches to value. For residential valuation, the sales approach is the most appropriate. Sales of new construction and the Cost Approach to Value, and then analyzed with sales of older homes of same quality and design, to create depreciation tables.

The purpose of the neighborhood delineation is to form a basis for land *modeling*. A model is a representation that explains the relationship between value, size requirements, 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.

Neighborhood Delineation is a study of forces from outside which could be considered to have an effect on property value; and conclusions on the typical housing, economic, social and demographic characteristics of the geographic area considered a homogeneous neighborhood.

Urban neighborhoods have also been delineated by their patterns of land use such as types of residential or commercial buildings. Neighborhood delineation is a multidisciplinary task with two primary goals. The first is to define a neighborhood as a unit of observation.

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/she can accept the valuations and use them to apply the models to each property. Perform the statistical tests required by CT OPM.

Hamden's newly appointed Interim Assessor happens to be a revaluation expert, with 86 project performed in 48 CT Towns/Cities, including in-house revaluations. He once owned his own personal revaluation firm.

Three Approaches to Value

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