The Role of the Outside Auditor in Municipal Tax Reassessment Programs

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In July, 2013, residents of Stamford, Connecticut received their first property tax bills after a municipal-wide reassessment—and many went promptly through the roof at double digit increases in an area where property prices overall had fallen 24%. Town officials then endured a barrage of unhappy phone calls and a seven-hour public meeting where they acknowledged problems in the reassessment severe enough to call in an outside auditor and leading to costly rework.

Property tax reassessments are sometimes triggered by laws and statutes; sometimes municipalities must implement them to address specific economic conditions (2008 real estate meltdown) or events (Hurricane Katrina). A reassessment program—when performed according to best practices and in a timely manner—ensures that each taxpayer is paying his or her fair share, and protects the local government from accusations of cutting corners, favoritism, or worse. Of course, a reassessment program can also lead to higher taxes for some and lower taxes for others, but that is inevitable.

Property tax reassessment programs are among the most expensive recurring functions of local government to carry out, especially when they are flawed and require revision. Reassessments, more than any other government obligation, go to the heart of revenue generation and the ability to provide essential services to taxpayers. In their aftermath, they can create hostile feelings when individuals or businesses feel they have been unfairly assessed compared to others. And that can lead to expensive litigation and often the ouster of public officials who may have had the best of intentions.

In Hopatcong, New Jersey, population 15,000, officials predicted 500 costly tax appeals after a problematic reassessment in 2013. Ironically, the reassessment was initiated to address the tax appeal issue. Lost appeals had resulted in downward revisions of $40 million in assessed property value since 2008, erasing hundreds of thousands of dollars in revenues from the town's tax rolls each year.

There is such a thing as a good reassessment experience, just as there are bad ones like Stamford's and Hopatcong's.

How can a municipality ensure a fair, defensible assessment that doesn't result in unhappy taxpayers, ostracized public officials, and expensive lawsuits?

"The most important thing," said Mary Marvin, Mayor of Bronxville, New York, speaking of the municipality's 2011 reassessment, "was getting the team assembled – the attorney experienced in reassessments, the outside auditor, the terrific assessor, the public officials – all have to be there. The communications first have to be in place, complete transparency on what you're doing all along the way, and having an outside disinterested, highly-respected auditor put some validity to the results."

First, let's acknowledge that municipal officials cannot be experts in everything and that they are not directly involved—generally by law—in the actual reassessment program. Independent municipal tax professionals, however, can be brought in as part of the process. The auditor ensures that best practices and current methodology and technology are utilized in the often subjective nature of property valuation; a second set of well-trained eyes to look over the process and its results, whose sole task is to ensure quality.

"In my experience," says Paul Sanderson, President of the International Property Tax Institute and former Director of Professional Services at the United Kingdom's Valuation Office Agency, "the municipality should plan its reassessment process carefully, ensure the appropriate resources are in place at the right time, keep their taxpayers fully informed about what is going on and how they are ensuring that the process is going to produce fair and equitable assessments; that is where an independent professional audit can be really valuable."

The goal of an appraisal is to establish the fair market value of a property at a specific time. The appraiser generally begins with concrete data like recent sales of comparable property, location, and replacement costs. Sounds simple so far, right? But then, they visit the property and look for changes in conditions—upgraded outbuildings, neighborhood trends, condition of the property and its particular features. Many of these factors are subjective, and sometimes the appraisers are denied access to more closely inspect dwellings.

When municipalities hire outside contractors to do the actual physical property-by-property assessment, it can often be on a best-bid (read: lowest cost) basis. Often, appraisers will record detailed information

from a sample of homes in a given neighborhood and use that data through Computer Assisted Mass Appraisal (CAMA) techniques. But, as the old saying goes, "garbage in, garbage out." If sufficient effort is not put into the collection of essential data from which to model, the resulting valuations may be wide off the mark.

Some appraisers who win the bid to perform a reassessment may have less experience or be unfamiliar with the area and the overarching on-site factors, positive and negative, affecting value. This can be quite subtle. In a town with four elementary schools, the appraiser must know that House A and House B, even though similar and right next door to one another, have a different value. House A's value is higher because it is zoned for the school with the best reputation, newest physical plant, and highest test scores.

If the assumptions about what drives value in a given neighborhood—number of bedrooms, distance to employment, interior finishes—and the weight to put on each are wrong, the quality of the assessment suffers. Feed this into a CAMA process, and you have a lower quality reassessment and the kinds of gross inequities that lead homeowners and businesses to sue. Municipal officials might want to remember, too, that a lost tax appeal costs *more* than the legal fees to fight it; the assessment base and resulting tax rates may be affected for all taxpayers for a long time to come. And where a pattern of poor valuations becomes known, the number of appeals can snowball and lead to a lack of confidence in many other aspects of local governance.

At the heart of the reassessment are the valuations themselves. The best assessment practices of commercial and industrial property require that all property be appraised at market value and in the most fair and equitable manner possible. The auditor, reviewing and sampling statistical and other modeling tools, can measure the global accuracy of those appraisals and identify problem areas—neighborhoods, commercial, and industrial districts—that might need to be reexamined.

In Virginia, the state sends in auditors after *every* reassessment though municipalities may also bring in independent specialists for special situations. "I welcomed the oversight of the auditor," said Bruce Woodzell, who was the Assessor of Albemarle

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County, VA for 20 years. "It showed me where my strengths and weaknesses were, because lower-priced homes should be assessed just like higher-priced homes, at the same ratio. If people are appealing their assessed values, having an auditor might give the city more arrows in its quiver for that appeal."

While a town may do a revaluation every five to seven years, a typical auditor brings years of experience from numerous engagements all over the country. Because they've been called to so many other "situations," they can look not just at the appraisals, but at each step of the process—from the quality of the raw data to those appraisers' assumptions—to ensure that best practices are or were used throughout the reassessment. They have the technical tools to examine CAMA data when complete, and standards and metrics they put into place at the reassessment's end to identify deviations from best practices. They can provide guidance in how to address those deviations.

"Having an outside expert," says Fred Nicely, presently Senior Tax Counsel for the Council on State Taxation, "able to explain obsolescence issues can be of a big benefit to a municipality when there is an appeal of an assessment before a tax tribunal."

Another scenario these outside professional auditors often see when they arrive after a poor reassessment is a vicious circle of suspicion and local politics gone sour. This is complicated by the fact that those perceived to have made mistakes and the perceived victims of those mistakes are neighbors. Add a random fact (the mayor's house got valued lower, his longtime political opponent's higher) and bad timing (an election year), and citizen-taxpayers can become very unhappy.

The answer is to anticipate—make the auditor part of the overall assessment plan when this is not already in place. The auditor helps throughout the process by bringing a good dose of transparency, remaining a completely independent player at the table and thus reassuring local residents and business owners that they can trust in the integrity of the whole. The net result—a good reassessment—results in defensible valuations. Public officials can point to the independent tax consultant's conclusions to address public concerns about fairness, global and specific. "We've settled a lot less because we felt that our numbers were defensible and would hold up in court." Bronxville's Mayor Marvin concluded. "You're confident in front of your community."

One of the other common things that outside municipal tax consultants see when they are called to the scene of the fire, so to speak, is that the conditions for the blaze were present long before their arrival. All municipalities have an Assessor's Office, and sometimes this is the place where the consultant can make long-term and cost-effective differences in the everyday tasks of municipal finance. They can show the team how and where bad data is getting into the system and introduce truly helpful technology, methods, and information-gathering tools. Not only might the next assessment be less contentious, it also might be less costly, too, both in terms of reduced appeals and lost revenue when appeals are won. ML



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