GO # 1
September 26, 2011
Briefing and discussion

MEMORANDUM

September 16, 2011

TO: Government Operations and Fiscal Policy Committee

FROM: Charles H. Sherer, Legislative Analyst

SUBJECT: Briefing regarding property tax assessments in Montgomery County

Purpose of this meeting The Committee Chair asked for a briefing on and discussion of the following topic:

Analyze residential property assessment data to determine whether the County is receiving appropriate revenue and that residents are being assessed and taxed uniformly across the County.

The following have agreed to provide the briefing and to discuss this topic with the Committee:

Robert E. Young, Director, State Department of Assessments & Taxation (SDAT). Mr. Young will make a 15-20 minute presentation and then respond to questions.
Hank Sikorski, the State Supervisor of Real Property
Charlotte Rogers, Special Assistant to the Director
Marie Green, Supervisor of Assessments for Montgomery County
Fariba Kassiri, Assistant CAO
Chris Cihlar, Director, CountyStat

Background SDAT assesses roughly one-third of all properties each year, so they assess each property every three years. On or about January 1 of each year (they call this the "date of finality"), SDAT sends assessment notices to the households being assessed. The assessed value is "in effect" for three years starting on January 1. They base their assessed values primarily on actual sales during the previous calendar year, and the County uses the new assessed values for property tax bills for

each of the next three fiscal years starting on July 1. The assessed value stays the same for these three fiscal years. The assessed value is SDAT's estimate of the value on January 1, not what the market value will be one, two, or three years later.

(If the new assessed value is **greater than** the old assessed value, then the amount of increase is "phased in" over the three years in equal amounts. So, there will be three "phase in" values, but only one assessed value for these three years. If the new assessed value is **less than** or equal to the old assessed value, then the new assessed value "takes effect" immediately, so the phase in value each year is the assessed value. The County uses the phase in value each year in calculating property tax bills.)

SDAT is now assessing one-third of the properties based on sales that occur in CY2011. On or about January 1, 2012, they will send the assessment notices, and the new assessed value will be "in effect" for CY12, CY13, and CY14. Note that the assessed value for each property is 12 months old when CY12 ends, 24 months old when CY13 ends, and 36 months old when CY14 ends. Therefore, during periods when property values are increasing (decreasing), sales values will be more (less) than assessed values, and the difference will increase each year in the three year period.

(The County will use the associated phase in value for property tax bills in FY13, FY14, and FY15. Note that the assessed value for each property is 6 months old when FY13 starts, 18 months old when FY14 starts, 30 months old when FY15 starts, and 42 months old when FY15 ends.)

The fact that the sales value for a specific property is more or less than the assessed value does not necessarily mean that the assessed value was wrong, because the assessed value was based on sales that occurred as many as four years ago. In Council staff's view, the question should be "were the assessments accurate when they were made?"

Mr. Young explained how to make assessed values closer to market values:

"The principal way that assessed values would be closer to market values based on recent sales is if you had an annual assessment process. Of course, you would have to spend millions of dollars hiring additional assessors and support staff to process the data entry, send out an assessment notice to 2.1 million property owners each year, and hold the appeal hearings in one year. In addition, you should be advised that the General Assembly unanimously enacted specific legislation in the 2002 session prohibiting Montgomery County from appealing "out of cycle" homeowners' assessments based on recent sales.

"Finally, the Department clearly needs more assessors. We need more assessors to pick up new construction properties sooner in the tax year and to successfully defend the large number of appeals and petitions for review filed by tax reps for commercial property owners. In 2011, we received 3,477 appeals and petitions for review for commercial properties in Montgomery County. We also are being especially hard hit with employee retirements because such a large percentage of our assessment staff have 30 or more years of service. Statewide, we have gone from 276 field assessors in 1975 with 1,308,470 total accounts to 163 assessors in 2011 with 2,171,205 total accounts."

CountyStat report CountyStat released a 34 page report dated April 26, 2011 titled "Review of Property Assessments and Sales in Montgomery County". Based on their statistical analyses, CountyStat made two conclusions:

1. On average, properties in the County were under assessed, compared to actual 2010 sale values. This finding is similar to the result of the State of Maryland's own evaluation.

2. In general, the most undervalued properties in terms of their assessment are the highest valued in terms of their sale price.

Response from SDAT The Director of SDAT provided the following response to the CountyStat report.

• Can't compare all 3 assessment groups to 2010 sales

• 2010 sales values are compared to different dates of finality

• January 1, 2011 assessment for group 2 should have been used for comparison and not a 3 year old 2008 assessment

• Used OAT's 2009 Ratio Study (completed in June 2010), this study looked at Group 3 properties that were sold between 7/1/2008 and 6/30/2009

• According to IAAO standards ~ Coefficient of Dispersion (COD) of 15.0 or less indicates a good appraisal and uniformity (Montgomery County was 7.99 according to the 2009 Ratio Study and the 2010 Ratio Study (on website 4/11/2011) indicates 7.85

• OAT has NOT analyzed the 7/1/2010- 12/31/2010 sales that were used for the Montgomery County Study

• Our 2009 ratio study looked at 2670 total sales whereas, Montgomery County looked at 3204 sales or 534 more sales that are in the next ratio study

• Short sales that are non-arms length transactions may have been part of the difference in the number of sales included in County Stats report and they may have been the source of the differences in the higher assessments on lower valued 300k properties

• Many of the 2010 sales are short sales which again are non-arms length transactions that are excluded under national appraisal standards

• Can't compare all 3 groups~Group 3 average ratio for Montgomery County is 96.5%-an excellent ratio for Mass Appraisal

• Can't run the analysis by zip code as the County Stats report does since one zip code may include two or three assessment groups

Contents:

Review of Property Assessments and Sales in Montgomery County

April 26, 2011

CountyStat

Meeting Goal

- The purpose of this meeting is to analyze residential property assessment data to confirm that the County is receiving appropriate revenue and that residents are being assessed and taxed uniformly across the County.

Overview of Findings

On average, properties in the County were under assessed, compared to actual 2010 sale values. This finding is similar to the result of the State of Maryland's own evaluation.

- **CountyStat reviewed 8,518 arms-length CY2010 sales of improved residential and condo properties in all three assessment groups (2009, 2010 and 2011)**

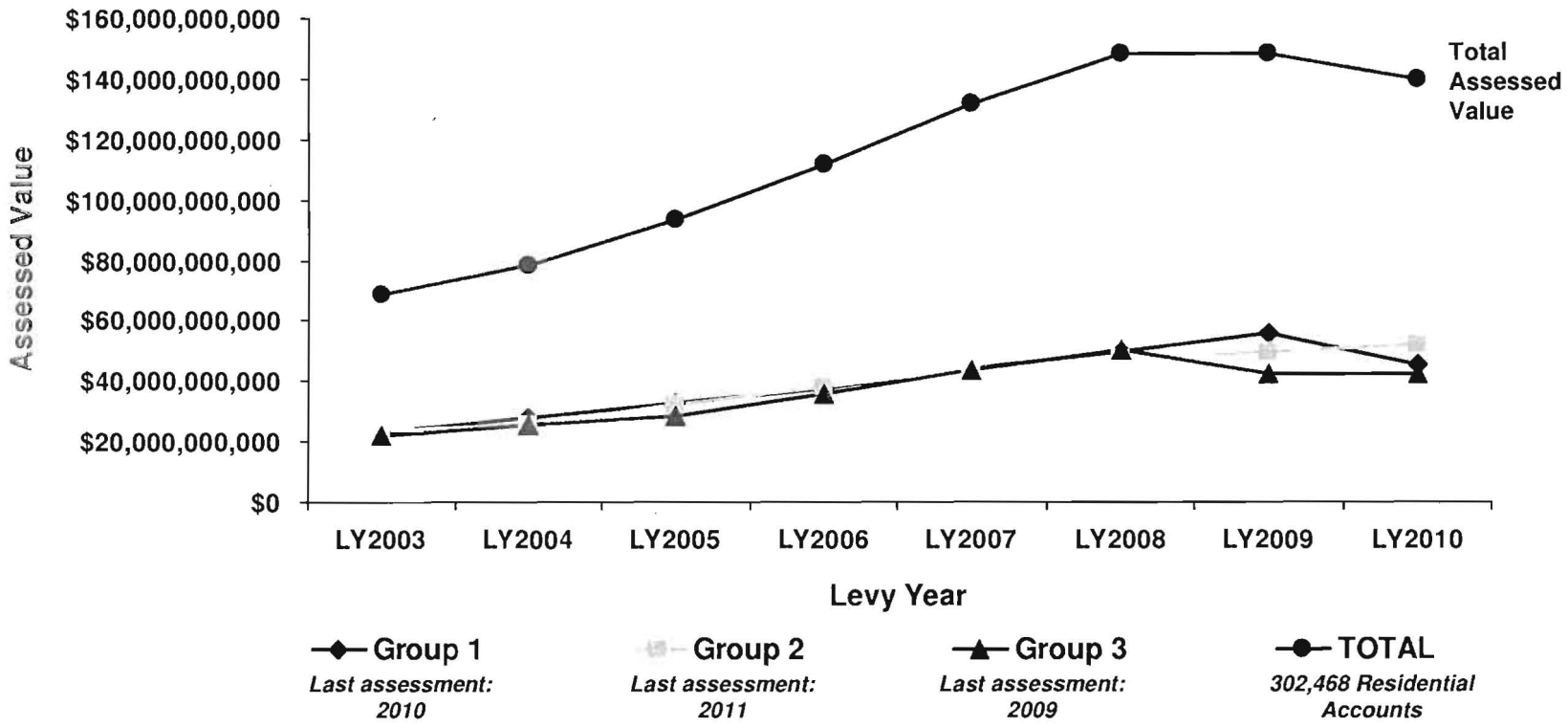
	% Difference between Assessed and Sale Value		
Assessment Group	Median	Average	Standard Deviation
Group 3 – Assessed in 2009	2%	1%	.19
Group 1 – Assessed in 2010	-8%	-9%	.22
Group 2 – Assessed in 2011	-11%	-10%	.10

State Department of Assessment and Taxation, 2009 Residential Ratio Study

Reviews arms-length sales of improved residential and condo properties in Group 3 from 7/1/2008 through 6/30/2009 (FY09). Ratios compare the Department's 1/1/2009 assessed value to the actual sale price.

Jurisdiction	# of Sales	Average Ratio	Median Ratio	Coefficient of Dispersion	Standard Deviation	Median Sale Price
Montgomery	2,670	96.5%	94.6%	7.99	0.11	$370,000

Change in Assessed Value
Residential Properties in Montgomery County



The above graph charts the change in the assessed value of all residential properties in Montgomery County. CountyStat's analysis focused on only those properties that were sold in 2010 between 1/1/2010 and 12/31/2010, between $100,000 and less than $15,000,000 in assessed value, and were improved arms-length sales only.

Source: Montgomery County Department of Finance

Change in Assessed Value
Residential Properties in Montgomery County

Residential Properties: Assessed Value				
Levy Year	Group 1 (Assessed in 2010)	Group 2 (Assessed in 2011)	Group 3 (Assessed in 2009)	TOTAL
LY2003	$22,868,941,610	$23,956,672,571	$22,051,475,167	$68,877,089,348
LY2004	$27,685,498,360	$25,815,786,960	$25,269,015,532	$78,770,300,852
%Change	21.06%	7.76%	14.59%	14.36%
LY2005	$32,745,041,712	$32,039,164,491	$28,629,240,470	$93,413,446,673
%Change	18.28%	24.11%	13.30%	18.59%
LY2006	$37,933,750,860	$38,219,628,092	$36,013,547,259	$112,166,926,211
%Change	15.85%	19.29%	25.79%	20.08%
LY2007	$44,117,725,552	$44,473,906,178	$43,518,486,619	$132,110,118,349
%Change	16.30%	16.36%	20.84%	17.78%
LY2008	$50,157,016,020	$47,404,923,265	$50,735,589,834	$148,297,529,119
%Change	13.69%	6.59%	16.58%	12.25%
LY2009	$55,943,386,737	$49,960,331,000	$42,342,569,239	$148,246,286,976
%Change	11.54%	5.39%	-16.54%	-0.03%
LY2010	$45,353,665,351	$52,129,296,157	$42,361,443,662	$139,844,405,170
%Change	-18.93%	4.34%	0.04%	-5.67%

Source: Montgomery County Department of Finance

Agenda

- **Scope of property assessments and sales**
  - Assessment process
  - Residential assessments
  - Appeals
  - State review of assessments and sales

Scope of Property Assessments and Sales Overview

- Article 15 of the Declaration of Rights of Maryland's Constitution requires that all property be assessed and taxed uniformly.
  - An assessment is based on an appraisal of the fair market value of the property.
  - State law requires that the increase in value over the old appraisal is to be "phased-in" over the next three years.

- Residential assessments are created using both the sales and cost approaches to property appraisals.

- Residents have the ability to appeal an assessments
  - Of the notices sent out in Montgomery County, 6.8% were appealed in FY08.

- To ensure the accuracy of assessments, SDAT makes an annual assessment ratio survey by comparing actual sales with assessment levels in the various subdivisions.
  - According to the State's own study of property assessments, the median ratio is 94.6%. This ratio compares the 1/1/2009 assessed value to the actual sales price for arms-length sales of improved residential and condo properties in Group 3 from 1/1/2008 to 6/30/2009.

Scope of Property Assessments and Sales
The Assessment Process

- **Fair Market Value**
  - Article 15 of the Declaration of Rights of Maryland's Constitution requires that all property be assessed and taxed uniformly. State law specifically requires that all taxable property shall be assessed based on its fair market value.

- **Approaches to Value**
  - An assessment is based on an appraisal of the fair market value of the property. An appraisal is an estimate of value. Assessors are the appraisers who estimate the value of the property for tax purposes. Assessors are trained to use standard appraisal approaches and techniques to determine the appraisal estimate.
  - There are three accepted approaches to market value: (1) the sales approach; (2) the cost approach; (3) the income approach. While differing in the method of calculation, each approach is designed to indicate the property's fair market value.

- **Phase-In**
  - For any increase in the full cash value of a property, State law requires that the increase in value over the old appraisal is to be "phased-in" over the next three years.
  - For example, a new appraisal of $130,000 is compared to an old appraisal of $100,000. In this example, the new appraisal is $30,000 higher than the old appraisal. The $30,000 is "phased-in" equally over the next three years: 1st year, $110,000; 2nd year, $120,000; 3rd year, $130,000.

Source: A HOMEOWNER'S GUIDE TO PROPERTY TAXES AND ASSESSMENTS
http://www.dat.state.md.us/sdatweb/hog.html

Scope of Property Assessments and Sales
The Residential Assessment

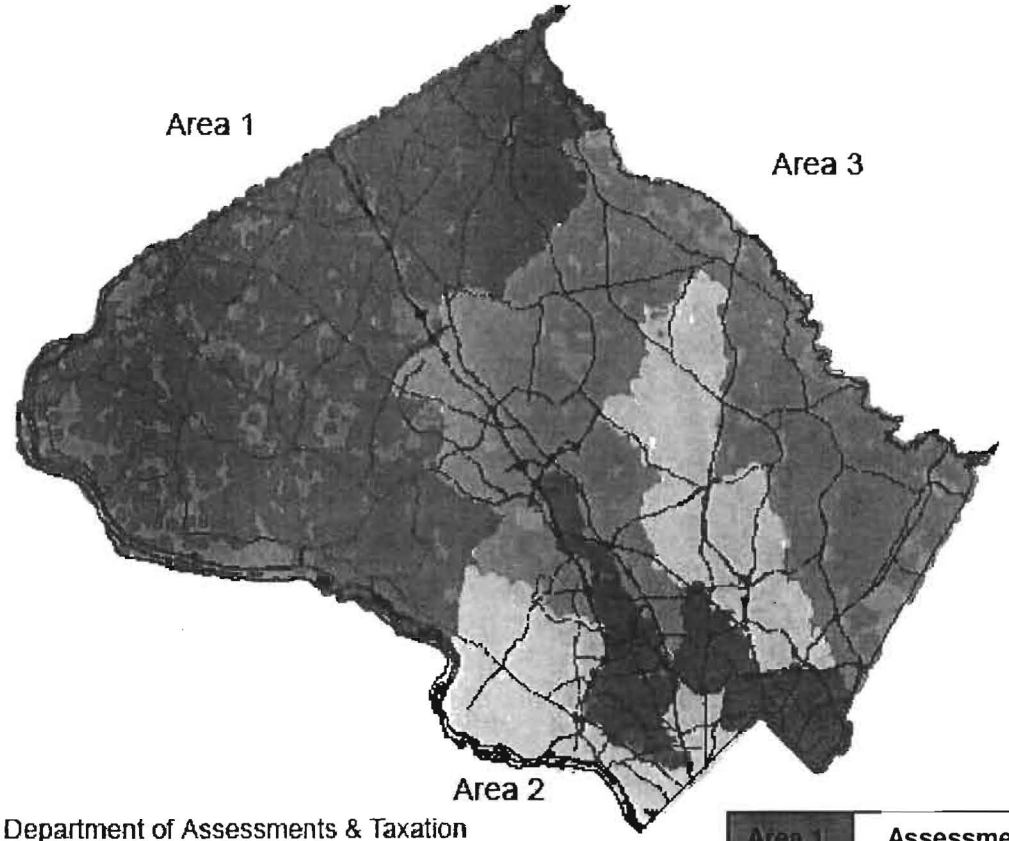
- **Sales Approach**
  - The fair market value of a given property may be determined by examining the sale prices of comparable properties.
  - If similar properties sold for approximately $100,000, it could be assumed that other comparable properties would sell in the $100,000 range.
  - The key to the sales approach is comparability and the availability of sufficient data.

- **Cost Approach**
  - The fair market value of a given property equals the total of the cost to construct a similar improvement, less any depreciation for age and condition, and the price of the land.

For residential properties, assessors in Maryland use a blend of both the sales and cost approaches. The value of the land is based on the sales approach, using the sale prices of similarly located and zoned parcels. The value of the dwelling is estimated using the cost approach with adjustments made if sales of similar properties indicate that a particular style of house is actually worth more or less than its construction cost.

Source: A HOMEOWNER'S GUIDE TO PROPERTY TAXES AND ASSESSMENTS
http://www.dat.state.md.us/sdatweb/hog.html

Scope of Property Assessments and Sales
The Residential Assessment – Assessment Areas



State Department of Assessments & Taxation
March 2006

Area 1	Assessment Area 1 will be reassessed for January 1, 2010
Area 2	Assessment Area 2 will be reassessed for January 1, 2011
Area 3	Assessment Area 3 will be reassessed for January 1, 2012

Source: Maryland Department of Assessment and Taxation, www.dat.state.md.us/sdatweb/16geo.html

Scope of Property Assessments and Sales Reassessment Appeals

This slide shows data on the number of reassessment appeals made to the county supervisors of assessments.

DEPARTMENT LEVEL APPEALS

FY 2006 - 2008

Jurisdiction	FISCAL YEAR 2006			FISCAL YEAR 2007			FISCAL YEAR 2008		
	Notices Sent*	Department Appeals	%	Notices Sent*	Department Appeals	%	Notices Sent*	Department Appeals	%
Allegany	13,002	319	2.5%	11,840	522	4.4%	13,675	735	5.4%
Anne Arundel	58,759	3,383	5.8%	58,920	3,156	5.4%	73,264	2,895	4.0%
Baltimore City	67,822	4,930	7.3%	67,473	5,054	7.5%	82,351	6,833	8.3%
Baltimore	97,287	5,329	5.5%	85,609	3,834	4.5%	90,200	8,877	9.8%
Calvert	17,038	910	5.3%	11,274	820	7.3%	11,381	680	6.0%
Caroline	4,328	266	6.1%	5,415	292	5.4%	5,783	467	8.1%
Carroll	19,146	1,031	5.4%	22,442	1,039	4.6%	20,849	1,464	7.0%
Cecil	14,230	795	5.6%	16,440	734	4.5%	13,016	599	4.6%
Charles	18,675	798	4.2%	19,995	407	2.0%	16,818	696	4.1%
Dorchester	5,383	251	4.7%	7,296	224	3.1%	8,372	858	10.2%
Frederick	22,697	1,107	4.9%	29,721	1,218	4.1%	34,884	1,617	4.6%
Garrett	8,873	264	3.0%	7,362	342	4.6%	10,887	569	5.2%
Harford	34,146	782	2.3%	24,084	1,126	4.7%	31,311	2,149	6.9%
Howard	30,932	913	3.0%	29,454	1,806	6.1%	29,566	2,068	7.0%
Kent	3,681	135	3.7%	3,977	286	7.2%	4,960	316	6.4%
Montgomery	114,322	4,842	4.2%	99,867	4,956	5.0%	90,064	6,134	6.8%
Prince George's	81,600	1,318	1.6%	71,907	2,389	3.3%	110,191	6,530	5.9%
Queen Anne's	9,435	681	7.2%	8,070	523	6.5%	6,424	437	6.8%
St. Mary's	14,091	857	6.1%	12,691	539	4.2%	15,165	1,291	8.5%
Somerset	6,569	333	5.1%	4,183	221	5.3%	5,254	517	9.8%
Talbot	5,432	188	3.5%	8,745	375	4.3%	5,573	383	6.9%
Washington	15,109	1,052	7.0%	20,088	1,221	6.1%	19,400	1,530	7.9%
Wicomico	15,180	344	2.3%	13,661	561	4.1%	14,494	999	6.9%
Worcester	30,344	2,600	8.6%	17,071	853	5.0%	14,565	709	4.9%
TOTAL	708,281	33,428	4.7%	657,585	32,498	4.9%	728,447	49,353	6.8%

*Notices are not sent for exempt property.

Source: Reassessment Appeals filed from FY06-FY08
http://www.dat.state.md.us/sdatweb/stats/Appeals.pdf

Scope of Property Assessments and Sales
SDAT Review of Assessments

SDAT has adopted national standards for measuring property assessment quality as outlined by the International Association of Assessing Officers. To ensure the accuracy of assessments, it makes an annual assessment ratio survey by comparing actual sales with assessment levels in the various subdivisions.

In evaluating its ability to fairly and accurately appraise properties, SDAT reviews the following:

- Assessed value/sale price ratio: how closely assessed values compare to the actual sales price
  - The average assessed value/sale price ratio indicates a typical level of value
  - Because the marketplace is not perfect, there will always be properties that sell for more or less than can be anticipated, due to factors such as sales between people unfamiliar with the market, buyers willing to pay extra for a unique property, or escalating values in a competitive seller's market

- Coefficient of dispersion and Coefficient of variation: the relative spread or variation that individual ratios fall from the typical
  - The lower the COD, the more uniform the assessment level.

Source: Maryland Department of Assessment and Taxation 2009 Annual Report, http://www.dat.state.md.us/sdatweb/stats/AnnualRpt_2009.pdf
Maryland Department of Assessment and Taxation 2009 Ratio Report http://www.dat.state.md.us/sdatweb/stats/09rr_rpt.pdf

Scope of Property Assessments and Sales
SDAT Review of Assessments (1 of 2)

Jurisdiction	# of Sales	Average Ratio	Median Ratio	Coefficient of Dispersion	Standard Deviation	Median Sale Price
Alleghany	155	90.4%	89.7%	7.73	0.10	$95,000
Anne Arundel	1,316	96.0%	95.0%	9.99	0.13	$385,000
Baltimore City	1,410	94.9%	91.4%	12.10	0.16	$210,000
Baltimore	2,449	97.7%	94.4%	11.40	0.12	$218,000
Calvert	215	97.2%	96.2%	9.31	0.13	$260,000
Caroline	31	95.3%	92.5%	7.15	0.10	$172,800
Carroll	394	94.8%	93.4%	8.50	0.11	$258,500
Cecil	322	96.1%	95.1%	7.78	0.11	$264,450
Charles	272	93.8%	93.2%	9.10	0.11	$350,000
Dorcester	26	88.5%	89.6%	6.03	0.09	$233,500
Frederick	294	96.3%	95.9%	7.39	0.09	$315,000
Statewide	**14,172**	**95.8%**	**94.0%**	**9.42**	**0.13**	**$280,000**

The above table displays data from SDAT's 2009 residential ratio study, which reviews arms-length sales of improved residential and condo properties in Group 3 from 7/1/2008 through 6/30/2009. Ratios compare the Department's 1/1/2009 assessed value to the actual sale price.

Source: Maryland Department of Assessment and Taxation 2009 Annual Report,
http://www.dat.state.md.us/sdatweb/stats/AnnualRpt_2009.pdf
Maryland Department of Assessment and Taxation 2009 Ratio Report
http://www.dat.state.md.us/sdatweb/stats/09rr_rpt.pdf

Scope of Property Assessments and Sales
SDAT Review of Assessments (2 of 2)

Jurisdiction	# of Sales	Average Ratio	Median Ratio	Coefficient of Dispersion	Standard Deviation	Median Sale Price
Garrett	81	91.1%	90.7%	10.76	0.13	$260,000
Harford	1,024	93.5%	92.5%	6.47	0.08	$235,250
Howard	1,095	94.2%	93.2%	6.13	0.08	$340,000
Kent	39	90.8%	90.6%	15.61	0.19	$265,000
Montgomery	2,670	96.5%	94.6%	7.99	0.11	$370,000
Prince George's	830	98.6%	96.0%	10.32	0.14	$250,000
Queen Anne's	106	92.8%	90.8%	5.85	0.08	$377,779
St. Mary's	418	98.7%	96.8%	7.68	0.10	$279,355
Somerset	47	89.5%	89.2%	12.16	0.15	$160,000
Talbot	53	96.5%	93.8%	10.02	0.12	$405,000
Washington	110	92.6%	91.0%	9.50	0.11	$233,750
Wicomico	201	88.4%	88.7%	8.36	0.10	$210,000
Worcester	614	95.2%	93.8%	10.07	0.13	$319,950
Statewide	**14,172**	**95.8%**	**94.0%**	**9.42**	**0.13**	**$280,000**

The above table displays data from SDAT's 2009 residential ratio study, which reviews arms-length sales of improved residential and condo properties in Group 3 from 7/1/2008 through 6/30/2009. Ratios compare the Department's 1/1/2009 assessed value to the actual sale price.

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Maryland Department of Assessment and Taxation 2009 Ratio Report
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Analysis of Residential Property Assessments and Sales Methodology and Data Overview

- **CountyStat used property assessment and sales data from the State Department of Assessment and Taxation**

- **Data was filtered to include** (Total starting records = 22,058):
  - Properties with transfer (sale) dates between 1/1/2010 and 12/31/2010
    - (Total records = 21,310)
  - Residential Land Use only – includes single family detached homes, townhouses, duplex, and condominiums
    - (Total records = 18,545)
  - Considered (sale) amounts greater than $100,000 and less than $15 million
    - (Total records = 12,457)
  - Improved arms-length sales only
    - (Total records = 8,518)

Analysis of Residential Property Assessments and Sales Data Caveats

- **CountyStat encountered issues related to accurate coding of arms-length sales and non-arms-length sales.**
  - Occasionally, records were coded as **arms-length sales**, but when referred back to the SDAT website were actually non-arms-length sales. Therefore, there may be some data integrity issues of the **arms-length sale** only information

- **MPDU housing is included in this dataset**
  - Moderately priced dwelling units were included in the dataset and may have some sale prices which are ***"affordably priced"*** as opposed to market price.

To the extent possible, CountyStat identified and addressed coding issues through comparison of our dataset with information available via the State's Real Property Search database. Erroneous data that could be identified was either corrected or removed.

Analysis of Residential Property Assessments and Sales Methodology and Data Overview

- **Data was analyzed to:**
  - For those 8,518 property records, compare the State's property assessments done for Groups 1(2010), 2(2011), and 3(2009) to the actual 2010 sale price

Assessment Group (Year Assessed)	Total	Methodology
3 (2009)	3,204	Used entire population to construct comparison.
1 (2010)	2,999	Used entire population to construct comparison.
2 (2011)	2,315	Sampled population and collected data from SDAT website on most current assessed value.
Total	8,518	

- **List of Analyses (for Groups 1 and 3):**
  - By zip code (community)
  - By land use type (single family detached v. townhouse/condo/apt)
  - By sale price range

CountyStat also sampled Groups 1 and 3 to ensure that the Group 2 sample results were reasonable and comparable.

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Analysis of Residential Property Assessments and Sales Group 2 (Assessed in 2011) - Methodology and Data Overview

- Data supplied for Group 2 did not include the most recent assessment (2011)
- For those 2,315 property records, CountyStat selected a random sample to gather the most recent assessment value data from the State's online database and compare to the actual 2010 sale price

Assessment Group	Total	Methodology
2 (2011)	2,315	Sampled population and collected data from SDAT website on most current assessed value.
Sample Size (~14% of population)		**330**

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Comparison of Average Sale to Assessed Value

Group 3 - 2009	Data
Property Count	3,204
Sale Value - Average	$ 373,400
Assessed Value - Average	$ 378,314
Average $Dollar Difference	$ 4,913
Average %Percent Difference	1%
Median %Percent Difference	2%
Standard Deviation - %Diff	19%

- For Group 3 (Assessed in 2009), the median percent difference between the assessed and sale values is 2% (assessed value is 2% higher than sale value).
- For Group 1 (Assessed in 2010), the median percent difference between the assessed and sale values is -8%.
- For Group 2 (Assessed in 2011), the median percent difference between the assessed and sale values is -11%.

Group 1 - 2010	Data
Property Count	2,999
Sale Value - Average	$517,140
Assessed Value - Average	$473,179
Average $Dollar Difference	$(43,961)
Average %Percent Difference	-9%
Median %Percent Difference	-8%
Standard Deviation - %Diff	22%

Group 2 – 2011 (Sample)	Data
Property Count	326
Sale Value - Average	$ 592,011
Assessed Value - Average	$ 537,251
Average $Dollar Difference	$ -54,760
Average %Percent Difference	-10%
Median %Percent Difference	-11%
Standard Deviation - %Diff	10%

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Summary of Additional Analyses

On average, properties in the County were under assessed, compared to actual 2010 sale values. This finding is similar to the result of the State of Maryland's own evaluation.

Comparison by Zipcodes

- For properties assessed in 2009 and 2010, the average difference between assessed and sales value varied widely.

Range	Average % Difference between Assessed and Sale Values
Minimum (Under-assessment)	-17%
Maximum (Over-assessment)	15%

Comparison by Land Use

- The largest land use group, single family detached, the average % difference is -5% (under-assessed)

Comparison by Sale Value Range

- Only the lowest sale value range ($100,000-299,999) demonstrated over-assessed properties, on average. All other bins demonstrated under-assessed properties, on average.
- For properties with the lowest sale values, the most over-assessed properties are single family detached (land use code 111).

Average % Difference	111	114	116	118	119	Total
$100,000-299,999	21%	-1%	10%	4%	-3%	9%
Property Count (#)	*3,356*	*324*	*1,693*	*462*	*368*	*6,203*

Comparison of Average Sale to Assessed Value Zip Code Analysis

- **Groups 1 & 3**
  - Communities outlined in light blue represent the minimum and maximum average % differences
  - Note: Data for zip codes with less than 10 properties are colored gray

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Zip Code		Property Count	Avg Sale Value	Avg Assessed Value	Average $Difference	Average %Difference
Laurel – 20707		1	438,000	702,760	264,760	38%
Germantown – 20786		1	475,000	443,000	(32,000)	-7%
Bethesda - 20814		189	754,589	642,136	(112,453)	-17%
Chevy Chase – 20815		61	1,108,593	979,625	(128,968)	-14%
Bethesda - 20817		262	920,603	818,163	(102,440)	-14%
Olney – 20832		72	428,541	418,213	(10,328)	-2%
Brookeville – 20833		26	628,250	614,955	(13,294)	-2%
Poolesville - 20837		55	408,294	391,182	(17,112)	-5%
Barnesville - 20838		2	407,160	471,950	64,790	22%
Boyds - 20841		69	528,092	482,040	(46,052)	-10%
Dickerson - 20842		3	237,800	264,567	26,767	13%
Rockville	20850	435	498,656	469,388	(29,268)	-7%
	20851	110	298,935	312,066	13,131	5%
	20852	410	458,222	432,644	(25,579)	-6%
	20853	17	174,063	172,941	(1,122)	-1%
Potomac - 20854		232	835,549	787,479	(48,070)	-7%
Derwood - 20855		105	427,296	436,638	9,342	1%
Sandy Spring - 20860		8	584,363	660,914	76,551	14%
Ashton - 20861		9	599,100	571,952	(27,148)	-5%
Brinklow - 20862		3	657,500	681,583	24,083	3%
Burtonsville – 20866		107	311,650	341,911	30,261	10%
Spencerville - 20868		2	775,000	951,830	176,830	19%
Clarksburg - 20871		174	433,013	406,213	(26,800)	-12%
Damascus - 20872		98	358,085	348,895	(9,190)	-4%
Germantown	20874	488	312,436	311,695	(741)	1%
	20876	186	295,319	303,827	8,508	5%
Gaithersburg - 20877		183	284,783	326,977	42,194	15%
Total		6,203	442,895	425,135	(17,759)	-3%

Comparison of Average Sale to Assessed Value Zip Code Analysis

- **Groups 1 & 3 (continued)**
  - Communities outlined in light blue represent the minimum and maximum average % differences
  - Note: Data for zip codes with less than 10 properties are colored gray

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

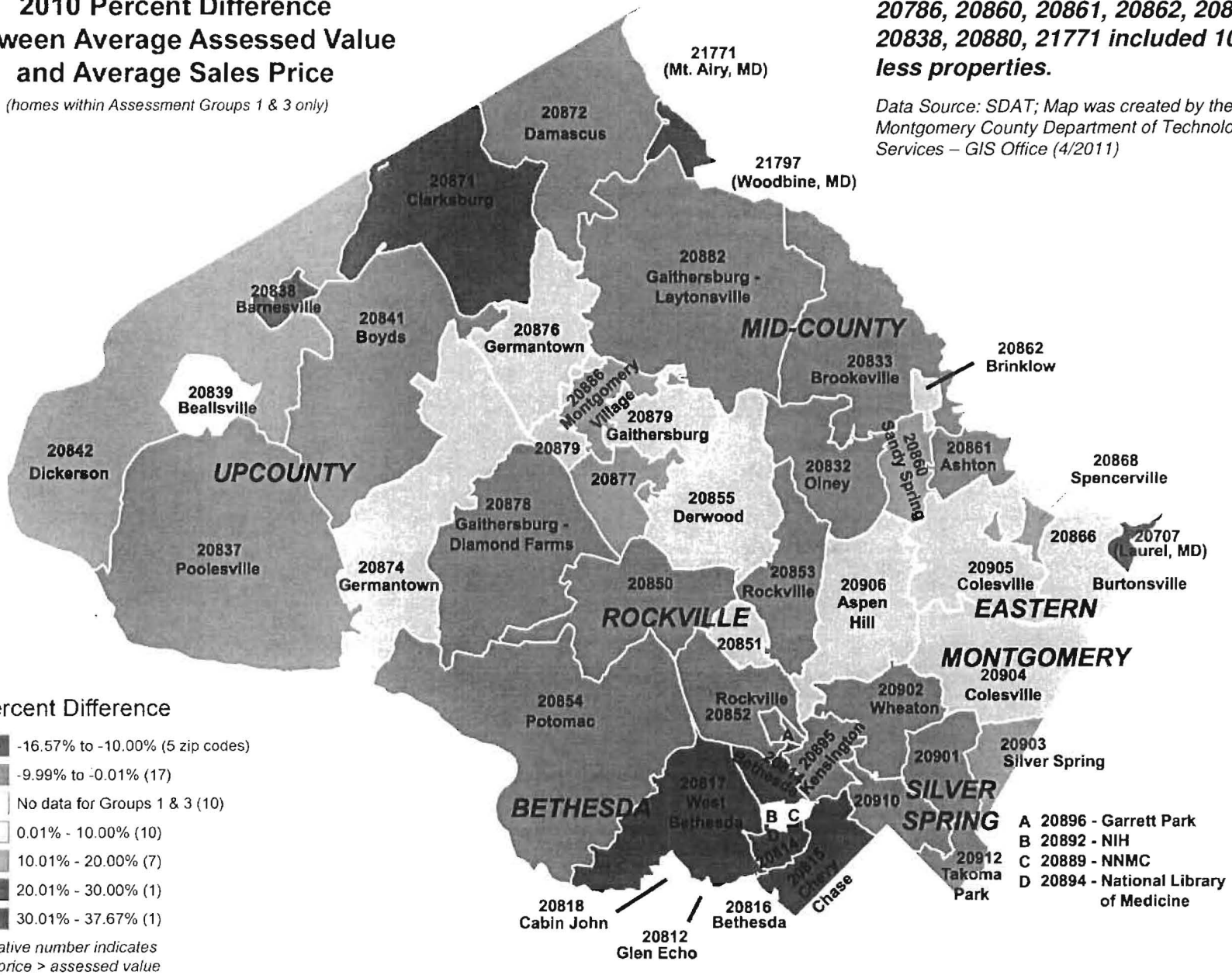
Zip Code		Property Count	Avg Sale Value	Avg Assessed Value	Average $Difference	Average %Difference
Gaithersburg	20878	669	471,635	439,673	(31,962)	-7%
	20879	236	265,743	290,074	24,331	10%
Washington Grove - 20880		7	408,443	462,056	53,613	10%
Gaithersburg - 20882		95	516,161	515,828	(333)	-3%
Montgomery Village 20886		303	243,843	273,326	29,484	13%
Kensington - 20895		188	536,359	498,405	(37,954)	-8%
Garrett Park - 20896		14	611,814	563,764	(48,050)	-9%
Silver Spring	20901	149	392,808	356,777	(36,031)	-9%
	20902	99	295,982	286,477	(9,505)	-4%
	20903	63	294,134	346,044	51,910	15%
	20904	230	376,144	394,991	18,846	1%
	20905	106	495,738	513,607	17,869	4%
	20906	312	202,719	205,493	2,774	1%
	20910	225	444,267	408,226	(36,041)	-8%
Takoma Park - 20912		196	347,634	314,299	(33,335)	-9%
Mount Airy - 21771		3	299,333	258,833	(40,500)	-15%
Total		6,203	442,895	425,135	(17,759)	-3%

2010 Percent Difference between Average Assessed Value and Average Sales Price

(homes within Assessment Groups 1 & 3 only)

Note: Data in zip codes 20707, 20786, 20860, 20861, 20862, 20842, 20838, 20880, 21771 included 10 or less properties.

Data Source: SDAT; Map was created by the Montgomery County Department of Technology Services – GIS Office (4/2011)



Percent Difference

- -16.57% to -10.00% (5 zip codes)
- -9.99% to -0.01% (17)
- No data for Groups 1 & 3 (10)
- 0.01% - 10.00% (10)
- 10.01% - 20.00% (7)
- 20.01% - 30.00% (1)
- 30.01% - 37.67% (1)

Negative number indicates sale price > assessed value

Comparison of Average Sale to Assessed Value
Land Use Analysis

- **Properties assessed in 2009 and 2010 (Groups 1 & 3)**

Land Use	Property Count	Avg Sale Value	Avg Assessed Value	Average $Difference	Average %Difference
111	3,356	565,232	535,850	(29,382)	-5%
114*	324	271,865	267,774	(4,091)	-3%
116	1,693	325,695	321,759	(3,937)	1%
118*	462	228,355	228,532	177	2%
119*	368	286,333	276,423	(9,910)	-4%
Total	6,203	442,895	425,135	(17,759)	-3%

**Condo properties*

- **111 - Single Family Detached**
- **114 - Townhouse, Duplex, Quadruplex, etc. (condominium)**
- **116 - Townhouse, Duplex, Quadruplex**
- **118 - Garden Apartment (condominium)**
- **119 - High-Rise Apartment Elevator (condominium)**

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Comparison of Average Sale to Assessed Value $Sale Value Analysis

- **Properties assessed in 2009 and 2010 (Groups 1 & 3)**

Sale Value Range	Property Count	Avg Sale Value	Avg Assessed Value	Average $Difference	Avg %Difference
100,000-299,999	2,144	212,031	237,550	25,519	9%
300,000-499,999	2,093	385,178	374,940	(10,238)	-4%
500,000-699,999	1,170	591,375	536,391	(54,984)	-12%
700,000-899,999	445	780,212	714,615	(65,597)	-12%
900,000-999,999	93	941,461	898,233	(43,228)	-8%
1,000,000-1,499,999	187	1,185,656	1,081,278	(104,378)	-15%
1,500,000-1,999,999	52	1,676,308	1,466,181	(210,127)	-20%
>2,000,000	19	2,682,079	1,868,564	(813,515)	-72%
Total	6,203	442,895	425,135	(17,759)	-3%

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Comparison of Average Sale to Assessed Value Land Use by Sale Value

- **Properties assessed in 2009 and 2010 (Groups 1 & 3)**
  - Average % Difference between Assessed and Sale Value

- **Land Use Codes**
  - 111 - Single Family Detached
  - 114 - Townhouse, Duplex, Quadruplex, etc. (condominium)
  - 116 - Townhouse, Duplex, Quadruplex
  - 118 - Garden Apartment (condominium)
  - 119 - High-Rise Apartment Elevator (condominium)

Sale Value Range	111	114	116	118	119	Total
100,000-299,999	21%	-1%	10%	4%	-3%	9%
300,000-499,999	-2%	-7%	-9%	-8%	-6%	-4%
500,000-699,999	-12%	-9%	-13%	-11%	-11%	-12%
700,000-899,999	-12%	-6%	-10%	-16%	0%	-12%
900,000-1,099,999	-10%		12%		-6%	-10%
1,100,000-1,299,999	-20%		-5%		-6%	-18%
1,300,000-1,499,999	-11%		-13%			-12%
1,500,000-1,699,999	-10%					-10%
1,700,000-1,899,999	-40%		-18%			-38%
1,900,000-2,099,999	-17%					-17%
2,100,000-2,299,999	-17%					-17%
2,300,000-2,499,999	-169%					-169%
2,500,000-2,699,999	-43%					-43%
3,500,000-3,699,999	-38%					-38%
3,700,000-3,899,999	-76%					-76%
3,900,000-4,099,999	-75%					-75%
Total (%)	**-5%**	**-3%**	**1%**	**2%**	**-4%**	**-3%**
Property Count (#)	***3,356***	***324***	***1,693***	***462***	***368***	***6,203***

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Comparison of Average Sale to Assessed Value
Median % Difference – Percentile Groups

In general, the most undervalued properties in terms of their assessment are the highest valued in terms of their sale price.

- **Properties assessed in 2010 (Group 1)**
  - The data was grouped by percentile rank in the data set
  - For example, at the 50th percentile, the percent difference between assessed and sale value is -8%.
    - The assessed value is 8% lower than the sale value
  - The median sale value was then calculated for each percentile group (e.g. 0-10th, 11-20th, etc.)

Percentile Rank	Median % Difference	Median Sale Price
0-10	-35%	$ 640,000
11-20	-22%	$ 565,500
21-30	-16%	$ 555,000
31-40	-13%	$ 485,000
41-50	-9%	$ 480,000
51-60	-6%	$ 439,000
61-70	-3%	$ 386,750
71-80	2%	$ 350,000
81-90	8%	$ 300,000
91-100	21%	$ 231,000

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Comparison of Average Sale to Assessed Value
Median % Difference – Percentile Groups

In general, the most undervalued properties in terms of their assessment are the highest valued in terms of their sale price.

- **Properties assessed in 2009 (Group 3)**
  - The data was grouped by percentile rank in the data set
  - For example, at the 50th percentile, the percent difference between assessed and sale value is 2%.
    - The assessed value is 2% higher than the sale value
  - The median sale value and median % difference was then calculated for each percentile group (e.g. 0-10th, 11-20th, etc.)

Percentile Rank	Median % Difference	Median Sale Price
0-10	-18%	$488,000
11-20	-11%	$439,000
21-30	-6%	$387,500
31-40	-2%	$355,000
41-50	1%	$350,000
51-60	5%	$330,000
61-70	8%	$313,000
71-80	13%	$256,500
81-90	20%	$220,000
91-100	32%	$170,000

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Comparison of Average Sale to Assessed Value
Median % Difference – Percentile Groups

- **Properties assessed in 2011 (Group 2)**
  - The data was grouped by percentile rank in the data set
  - For example, at the 50th percentile, the percent difference between assessed and sale value is -11%.
    - The assessed value is -11% higher than the sale value
  - The median sale value and median % difference was then calculated for each percentile group (e.g. 0-10th, 11-20th, etc.)

Percentile Rank	Median % Difference	Median Sale Price
0-10	-18%	$420,000
11-20	-15%	$356,000
21-30	-13%	$400,000
31-40	-12%	$415,000
41-50	-11%	$430,000
51-60	-9%	$640,000
61-70	-8%	$572,000
71-80	-5%	$418,000
81-90	-1%	$530,000
91-100	44%	$317,500

Group 2 (2011) was sampled in order to analyze it in the same manner as Groups 1 and 3. As it is based on a smaller number of properties, the results are somewhat different.

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

Appendix
Comparison of Average Sale to Assessed Value Zip Code Analysis

- Group 1

Zip Code	Property Count	Avg Sale Value	Avg Assessed Value	Average $Difference	Average %Difference
20814	148	894,117	755,971	(138,146)	-19%
20815	61	1,108,593	979,625	(128,968)	-14%
20817	262	920,603	818,163	(102,440)	-14%
20837	55	408,294	391,182	(17,112)	-5%
20838	2	407,160	471,950	64,790	22%
20841	69	528,092	482,040	(46,052)	-10%
20842	3	237,800	264,567	26,767	13%
20850	189	590,594	534,510	(56,084)	-11%
20852	132	704,618	650,377	(54,242)	-10%
20853	17	174,063	172,941	(1,122)	-1%
20854	40	1,322,382	1,269,953	(52,428)	-5%
20855	1	785,000	653,000	(132,000)	-20%
20871	174	433,013	406,213	(26,800)	-12%
20872	98	358,085	348,895	(9,190)	-4%
20874	300	358,888	346,391	(12,497)	-4%
20876	27	441,533	394,448	(47,085)	-12%
20878	249	563,556	504,234	(59,322)	-12%
20882	48	445,139	428,190	(16,949)	-8%
20895	169	535,086	500,296	(34,789)	-8%
20901	112	390,035	338,492	(51,544)	-14%
20902	99	295,982	286,477	(9,505)	-4%
20903	12	175,167	206,683	31,517	15%
20906	308	200,742	201,974	1,232	0%
20910	225	444,267	408,226	(36,041)	-8%
20912	196	347,634	314,299	(33,335)	-9%
21771	3	299,333	258,833	(40,500)	-15%
Total	2,999	517,140	473,179	(43,961)	-9%

Note: This data only includes properties with transfer dates between 1/1/2010 and 12/31/2010; residential land use only – includes single, family detached homes, townhouses, duplex, and condominiums; considered amounts greater than $100,000 and less than $15,000,000; improved arms-length sales only.

OFFICE OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

July 14, 2011

Mr. Robert E. Young
Deputy Director
State of Maryland Department of Assessments and Taxation
300 West Preston Street, Room 605
Baltimore, Maryland 21201

Dear Mr. Young,

Thank you for your comments and input regarding our CountyStat session on Tax Assessments in Montgomery County that was held on April 26th, 2011. Let me say first that the meeting was in no way designed to question the work being done by the State Department of Assessments and Taxation (SDAT), but rather to answer the question: How close to actual house sale values are house assessment values in Montgomery County?

Initial CountyStat analysis indicates that in general, homes sell, on average, at a moderate premium to their assessed value. This overarching finding is not very different from the one presented on SDAT's own website that also shows homes in Montgomery County sell, on average, for slightly more than their assessed value. Of more concern is an underlying trend that seems to show higher priced homes are significantly more under assessed than more moderately priced dwellings.

It is important to note that the CountyStat study was not intended to exactly replicate the methodology used by SDAT or to try and determine how well SDAT is doing its' work. We recognize that while certain legal requirements impact how SDAT functions, the analysis done by CountyStat was not hindered by these requirements. However, while noting that a discussion about methodology is important, moving forward Montgomery County would like to focus the conversation on the apparent systematic disparity in the assessed vs. actual sales values of houses at different ends of the price spectrum

Attached, for your information, is the CountyStat response to several of the methodological concerns you raised in your letter. However, we want to again emphasize that this conversation should fundamentally remain about the two issues mentioned above; the overall compatibility of assessed versus sale value and whether or not certain populations are more positively or negatively impacted by the way in which assessments are currently conducted. While your comments help focus the discussion around ways in which analysis might be conducted, we need to be sure to remain focused on the larger issues at hand. The initial analysis

done by CountyStat was meant to be just that, an initial analysis, and we look forward to working with you in the near future to address this issue.

CountyStat is happy to discuss with you the data they used and to forward any information that you request. Their comments regarding the issues you have raised follow this letter.

Sincerely,

Fariba Kassiri

Fariba Kassiri
Assistant Chief Administrative Officer
Montgomery County, Maryland

FK:cc

Enclosures: CountyStat Response to SDAT Questions
CountyStat Slides on Tax Assessment

cc: Joe Beach, Director, Office of Management and Budget
Karen Hawkins, Acting Director, Department of Finance
Chris Cihlar, Manager, CountyStat

CountyStat Response to Mr. Robert E. Young, Acting Deputy Director, Department of Assessment and Taxation (SDAT)

Before addressing the specific comments provided by Mr. Young, it is important to first state that CountyStat did not attempt to replicate any analysis that SDAT currently conducts and it fully recognizes the legal requirements under which the Department operates. While Mr. Young's comments regarding date of finality and out of cycle appeals are certainly relevant to their assessment, using calendar year 2010 sales data to examine how closely it matches with how a property is currently assessed is a valid method of analysis. The question CountyStat sought to answer was how well do current assessments of Montgomery County properties compare to sales in calendar year 2010, regardless of the cycle they are in. Certainly this is a different way of examining the data than how SDAT look at its information, but it does not mean the analysis is not valid. The overall findings of CountyStat closely follow those findings presented on SDAT's own website, in terms of the difference between overall assessment value and actual sales price. There is no comparable study or data showing how higher or lower priced properties fair in terms of assessments to actual sales. In general, while the overall average or difference of the combined sales in the County may come fairly close to the actual sales, we are more concerned about the large variance that appears in the analysis rather than a general average. As to the individual points included:

SDAT Concern: Can't compare all 3 assessment groups to 2010 sales

CountyStat Response: This was addressed above but, to be clear, CountyStat was trying to determine how well current assessments match up to the sales in 2010. To a larger point, CountyStat actually found that the prices of homes assessed three years ago were the closest to actual sales value. The median percent difference between assessed and 2010 sales value for Group 3 (assessed in 2009) was 2%. While an overall average was presented, CountyStat was very careful to keep each group separate and present the data that way. Surprisingly, the group that was furthest from the actual sales value was the group most recently assessed (Group 2: -11%). While there may be other factors that would explain this difference, it is worth noting here.

SDAT Concern: 2010 sales values are compared to different dates of finality

CountyStat Response: This is certainly an important point. It was noted in the CountyStat methodology, that in addition to using the data provided to the County's Department of Finance by the State of Maryland, CountyStat conducted an analysis of what was currently being reported (as of mid April 2011) on SDAT's Real Property Database (http://sdatcert3.resiusa.org/rp_rewrite/). A large sample was collected and this was done for each group (and was the exclusive way in which Group 2 was analyzed). CountyStat is happy to share its exact methodology but, for sake of this response, it is sufficient to say that a random sample of the sales used in the analysis for roughly 200 properties in each cycle was extracted and compared to the SDAT database. There were a few anomalies for each group, but they did not significantly impact the results (less than 1% difference in the overall average differences).

SDAT Concern: January 1, 2011 assessments for Group 2 should have been used for comparison and not a 3 year old 2008 assessment

CountyStat Response: As was noted in the presentation, this is exactly what was used. Our Group 2 dataset was entirely comprised of a large random sample (14% of properties in the Group 2 dataset provided by State to the County). CountyStat's analysis did not include any 2008 assessment data for group 2 as mentioned by Mr. Young. We took pains to note this, and to ensure this sample was valid. A more detailed discussion of the sample extracted for each group is discussed above. Our initial reason for sampling each group was to ensure that there was no statistical difference between the entire population of sales used for Groups 1 and 3 and the sample used in Group 2.

SDAT Concern: According to IAAO standards, a Coefficient of Dispersion (COD) of 15.0 or less indicates a good appraisal and uniformity. Montgomery County was at 7.99 in 2009 and 7.85 in 2010

CountyStat Response: The COD is used to determine how well a group of variables clusters around a median. While it does indicate Montgomery County is doing well by this measure there are a couple of points to keep in mind. First, it indicates how well a group of data points (in this case properties) "clusters." It says nothing about how well an overall appraisal is done in terms of meeting a sales price as compared to an assessed value. If for instance, all properties are over or under assessed by a large amount it can still have a low COD. Second, and this is more relevant to the property value disparity that was identified in the CountyStat report, an overall COD value assumes that all properties in a county are equally likely to fall on one side of the spectrum or another. However, if there is a systemic difference in the likelihood of how a property is assessed (i.e. a high valued property is under assessed and a more affordable home is over assessed) one would still have a low COD despite the underlying disparity. This is why it will be important to further examine this issue.

SDAT Concerns: SDAT has NOT analyzed the 7/1/10 -12/31/10 sales that were used for the Montgomery County Study

Our 2009 ratio study looked at 2670 total sales whereas Montgomery County looked at 3204 or 534 more sales than are in the next ratio study.

Short sales that are non-arms length transactions may have been part of the difference in the number of sales included in the CountyStat's report and they have may have been the source of the difference in the higher assessments on lower valued 300k properties.

CountyStat Response: Since all three of these comments are related, they are addressed together. First, CountyStat reviewed all sales that occurred between January 1, 2010 and

December 31, 2010. It is likely that this accounts for at least some of the difference in the numbers.

More importantly, CountyStat also removed all sales that were identified as being non-arms length. Further, we verified all non-arms length sales either by checking for the entire group (Group 2) on the SDAT online database, or through the extracted sample that the properties included in the study were only those that were identified as being arms length sales. If a large group of short sale properties was not identified either in the property assessments data provided to the County Department of Finance by the State, or in SDAT's own database as non-arms length sales, they would have been included in the analysis. If this is the case, it will be important to identify and remove those properties. Additionally, it would likely further impact the overall difference in the average sales price from the assessed price, as virtually all of these properties could be expected to sell for less than their assessed value or, at minimum, at a discount to those not part of a short sale.

SDAT Concern: Many of the 2010 sales are short sales which again are non-arms length transactions that are excluded under national appraisal standards.

CountyStat Response: CountyStat absolutely agrees that all these properties should be excluded and took pains to pull any property identified as non-arms length. Again, if these properties were included in the analysis the overall disparity between how a property was assessed and what it actually sold for would likely be even greater. CountyStat's analysis, which was not too different from that provided by SDAT on its site, showed properties on the whole in Montgomery County tend to be assessed for less than their sale price. Adding a large number of short, non-arms length sales would almost certainly make this disparity greater than if they were removed.

SDAT Concerns: Can't compare all 3 groups- Group 3 average ration is 96.5% an excellent ration of Mass Appraisal.

Can't run the analysis by zip code as the CountyStat report does since one zip code may include two or three assessment groups

CountyStat Response: This issue was discussed above in terms of why CountyStat conducted the analysis in the way that it did. As a further point however, the zip code analysis is a valid one in terms of multiple assessment groups since the overall average would be biased depending on when an assessment was done. This is true regardless of whether multiple assessment groups are included in a zip code. CountyStat agrees that the zip code data should be used only as indicator and tracked for changes over time.

taxanalysts special report

The Best and Worst of Property Tax Administration: COST Score Card

by Fred Nicely and Douglas L. Turner

Fred Nicely is the Council On State Taxation's tax counsel and the staff member assigned to assist COST's Property Tax Committee. He is the former chief counsel to the Ohio Department of Taxation. Douglas J. Turner is director of property taxes for the General Electric Co. and serves as chair of the COST Property Tax Committee.

COST is the premier state tax organization representing multi-jurisdictional taxpayers. COST is a nonprofit trade organization consisting of nearly 600 multistate corporations. COST's mission is to preserve and promote equitable and nondiscriminatory state and local taxation of multi-jurisdictional business entities.

For tables 6 and 7, contact COST.

Executive Summary

Fair property tax administration is critically important to both individual and business taxpayers. From an individual perspective, the property tax is often identified as "the most hated tax,"[1] surpassing both the income tax and the sales tax in taxpayers' low estimation. While much-reviled, however, it is unlikely to go away anytime soon since the property tax provides approximately 65 percent of local school revenue.[2] Because state and local jurisdictions rely so heavily on the property tax, it is essential for state legislators and tax administrators to ensure the tax is administered fairly and without perceptions of bias or undue administrative burdens. Taxpayers are much more willing to fairly and fully comply with a property tax system perceived as unbiased, equitable and efficient.

Over the last 100 years, the property tax has gradually shifted from a tax generally imposed at the state level (accounting for 43 percent of state revenue in the early 1900s), to circumstances today where 98 percent of the property tax is imposed at the local level — accounting for over 70 percent of revenue for local governments.[3] Property taxes today account for less than 2 percent of state revenues.[4] Because of the potential burdens on businesses caused by this decentralization, it is vital for state governments to oversee the operations of local assessors to ensure property taxes are uniformly and fairly assessed.[5] Viewed from the business community's perspective, property taxes comprise fully 36.5 percent of the total state and local tax burden imposed on business for fiscal 2009, far exceeding all other taxes imposed on businesses by state and local jurisdictions.[6] This equates to $215.3 billion in property taxes annually — an amount which, contrary to current economic trends, continues to steadily increase year to year.[7] Indeed, a recent study noted that the District of Columbia, Florida, Indiana, and

[1]Comment from Gerald Prante, economist at the Washington, D.C. based Tax Foundation. Located on MSN Money, http://articles.moneycentral.msn.com/Taxes/Advice/AmericasMostHatedTax.aspx.

[2]Research Committee of IAAO, "Assessed Value Cap Overview," published in the *Journal of Property Tax Assessment & Administration* (2010), Volume 7, Issue 1, p. 17.

[3]From US Census Bureau, "State Government Tax Collections in 2009" report released in March 2010 and revised May, 2010. While property tax revenue was, as a whole up for the states, collectively, state tax collections in fiscal 2009 were down 8.5 percent from fiscal 2008 collections.

[4]Richard Almy, Alan Dornfest, and Daphne Kenyon, "Fundamentals of Tax Policy," published in 2008 by the IAAO. *See* page 12.

[5]Holley Hewett Ulbrich, A Property Tax for the 21th Century," published in 1998, indicates issues of "fairness" are probably the biggest cause of taxpayer discontent. The report can be found at http://www.strom.clemson.edu/opinion/ulbrich/proptax.html.

[6]*See* "Total State and Local Business Taxes" report for fiscal 2009 prepared by Ernst & Young in conjunction with COST issued March 2010. The report can be found at http://cost.org/StateTaxLibrary.aspx?id=17768.

[7]*Id.*

New Mexico were found to have increased property tax collections by over 10 percent annually (on a per capita basis) from fiscal 2007 to fiscal 2008.[8]

This Scorecard evaluates the following characteristics of state and local property tax systems that in our view represent fair property tax administration on a state by state basis:

- A fair property tax system must have standardized filing, remittance and appeal procedures throughout the state;
- The appeal process for property tax disputes must be before an independent tribunal, in a *de novo* hearing, without a pay-to-play requirement for disputed property taxes; and
- The property tax burden must be balanced and uniform and not shifted onto business taxpayers.

This scorecard complements other scorecards COST has issued to evaluate state administrative tax practices. COST recently updated "The Best and Worst of State Tax Administration" scorecard in February, 2010. Additionally, COST has evaluated state unclaimed property laws from the property holders' perspective in "The Best and Worst of State Unclaimed Property Laws." This Scorecard, "The Best and Worst of Property Tax Administration," specifically addresses state property tax administrative practices, taking into account the fact that property taxes are administered at both the state and local government level. Similar to the prior scorecards, this Scorecard ranks objective procedural practices of state and local property tax administrative practices. Strong oversight from the state (usually the state's chief tax authority) is desirable for the portion of the property tax administered locally.

Introduction

COST is a non-profit trade organization that represents nearly 600 multistate corporations engaged in interstate and international businesses. This Scorecard promotes COST's mission statement of preserving and promoting equitable and nondiscriminatory state and local taxation of multijurisdictional business entities.

In 2008, COST formed a Property Tax Task Force[9] focused on efforts to improve state and local administration of property taxes. One of the initial goals of the Task Force was to develop a COST policy statement on fair and equitable property tax administration. In October, 2008, the COST Board adopted the Task Force's recommendations. That policy statement reads as follows:

Table 1.
Top 5 and Bottom 5 Ranked States:

Top Ranked States	
State	**Grade**
Maryland	A-
Florida	B+
Georgia	B+
Kentucky	B+
Oregon	B+
Bottom Ranked States	
State	**Grade**
New York	F
Delaware	D-
Illinois	D-
Pennsylvania	D-
Hawaii	D

Position: State and local property tax systems must be fairly administered and tax burdens equitably distributed among taxpayers. A property tax system that is inefficient or that disproportionally falls on business is not equitable and will negatively impact a state's business tax climate.

- **Uniform Tax Base and Rates** — A property tax base disproportionally comprising business property is not balanced. The tax rates imposed on property used for business purposes should not significantly differ from the tax rates imposed on property used for residential purposes. The market value and assessed value ratios for business and residential property should also be similar. Furthermore, intangible property, such as trade names, customer relationships and goodwill, should not be included in the property tax base because such property is associated only with the management of business, and the measurement of such value is extremely subjective. Finally, wholesale exemptions of property used for residential purposes and artificial caps that do not equally apply to property used in business are inherently unfair and fiscally unsound.
- **Efficient Filing Procedures** — The format and filing due dates for property tax returns, including requests for supplemental information and extensions, should be uniform across the State and allow enough time for proper completion after the valuation lien date. Taxpayers should be provided sufficient time to review assessments (for example, 60 days) so as to minimize the number of protective appeals that are filed. Streamlined procedures should be provided for property owners to obtain exemptions.

[8]"Property Tax Revenue Increased As Property Values Fell," report by the Tax Foundation issued August 31, 2010, No. 243.

[9]The Property Tax Task Force was renamed the Property Tax Committee in 2010.