

New Methodology for Calculating State Board of Equalization Ratios

September 6, 2011

- New methodology only affects State Board ratios.
- No impact on Tax Court ratios or 21-month state aids ratios.



Overview of 2011 Sales Ratio Studies

<u>2011 Study</u>	<u>Use</u>	<u>Sale Dates</u>	<u>Assessor's Market Value</u>	<u>Time Adjustment</u>
21-Month State Aids Study	School Aids and Local Gov't Aids	Jan 2010 – Sept 2011: Jan 2010-Dec 2010 Jan 2011-Sept 2011	Jan 2010 Assessor's MV Jan 2011 Assessor's MV	Sale Prices Time Adjusted to Jan 2010 Sale Prices Time Adjusted to Jan 2011
9-Month Tax Court Study	Tax Court	Jan 2011 - Sept 2011	Jan 2011 Assessor's MV	Sale Prices Time Adjusted to Jan 2011
12-Month Tax Court Study	Tax Court	Oct 2010 - Sept 2011	Jan 2011 Assessor's MV	Sale Prices Time Adjusted to Jan 2011
12-Month State Board Study (Old methodology)	2012 State Board of Equalization	Oct 2010 - Sept 2011	Jan 2011 Assessor's MV (median ratio adjusted by local effort to Jan 2012)	Sale Prices Time Adjusted to Jan 2011
12-Month State Board Study (New methodology)	2012 State Board of Equalization	Oct 2010 - Sept 2011	Jan 2012 Assessor's MV	Sale Prices Time Adjusted to Jan 2012

Comparison of Old Methodology vs New Methodology for 12-Month State Board Study

Comparison of Old Methodology vs New Methodology 2011 Sales Ratio Study

12-Month State Board Study for 2012 State Board of Equalization

Old Methodology

$$\text{Median Sales Ratio for 2012 State Boards} = \frac{\text{2011 Assessor's Market Value}}{\text{Sale Price Time Adjusted to Jan 2011}} \times \text{Local Effort}^*$$

New Methodology

$$\text{Median Sales Ratio for 2012 State Boards} = \frac{\text{2012 Assessor's Market Value}}{\text{Sale Price Time Adjusted to Jan 2012}}$$

* - Local effort is the percent change in aggregate assessor's MV by property type from 2011 to 2012 less any new construction. The local effort was applied to the 2011 median sales ratio to derive the median sales ratio for 2012 State Board of Equalization (under the old methodology).

What changes between the old and new State Board methodologies?

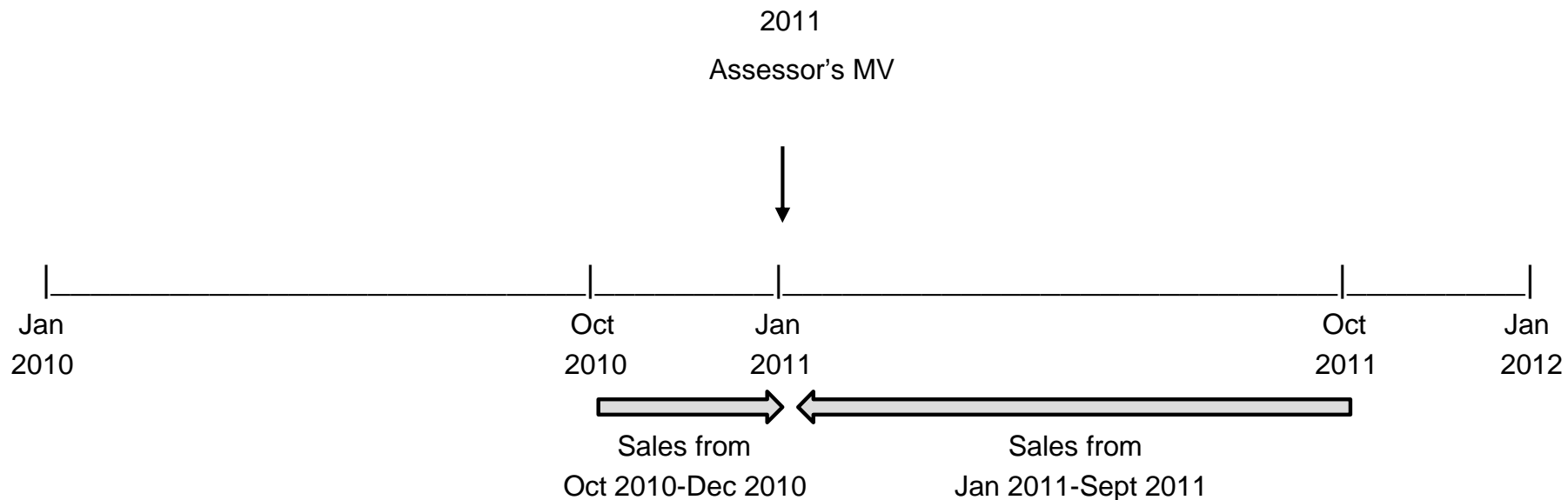
- The only differences:
 - Old: time adjusts all sales to January 2011.
New: “ “ “ “ “ January 2012.
 - Old: uses ‘local effort’ to adjust the median sales ratios forward to reflect the next year’s (2012) assessor’s values.
New: uses the specific 2012 assessor’s MV for each sale.
 - New: The 2012 MV used for each sale is reduced by the amount of 2011 new construction after the sale – as reported on the prelim 2012 MV by Parcel file. (More details on this in the ‘New Construction’ section.)

What does not change between the old and new State Board methodologies?

- Everything else remains unchanged:
 - Both methods use the same sales from Oct 2010-Sept 2011.
 - No changes to work flow processes for the study
 - Same study Good/Reject criteria, same data gathering, same Value Pickup.
 - The process for calculating time adjustments, including the sales and MV's used, remains unchanged (see PACE handouts).
 - As with the old method, time adjustments will be available in December/January.
 - The only change for State Board ratios is that the time adjustment factors adjust the sale prices to Jan 2012 instead of Jan 2011.

2011 Sales Ratio Study
12-Month State Board Study
for 2012 State Board of Equalization
Sales from Oct 2010 – Sept 2011

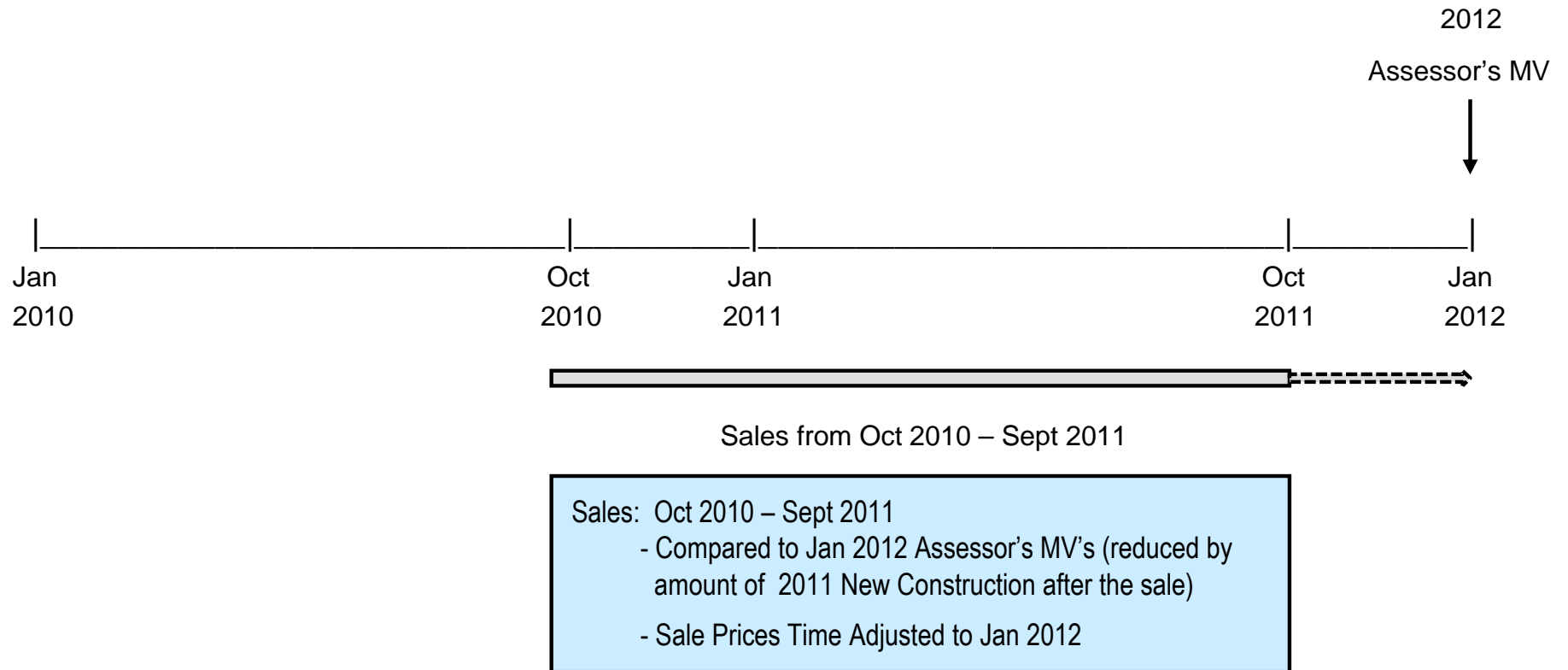
Old Methodology – Uses 2011 Assessor's MV's with 2012 Local Effort and Sale Prices Time Adjusted to Jan 2011



Sales: Oct 2010 – Sept 2011
- Compared to Jan 2011 Assessor's MV's (median sales ratio adjusted by 'local effort' to Jan 2012)
- Sale Prices Time Adjusted to Jan 2011

2011 Sales Ratio Study
12-Month State Board Study
for 2012 State Board of Equalization
Sales from Oct 2010 – Sept 2011

New Methodology – Uses 2012 Assessor's MV's and Sale Prices Time Adjusted to Jan 2012



Impact of New Construction Using the New Methodology



New Construction

- The key issue: Does the new construction occur between the sale date and an assessment date that is relevant to the sales ratio analysis?

Impact of New Construction

Old vs New 12-Month State Board Methodology

Old Methodology

The sales were compared to the Jan 2011 Assessor's MV.

- Therefore we did not care if there was any NC to the sale property in 2011 after the sale date.

New Methodology

The sales are compared to the Jan 2012 Assessor's MV.

- Because of this, any NC to the sale property that occurs in 2011 after the sale date is meaningful because we are comparing the sale price forward to the Jan 2012 Assessor's MV.
- To account for the NC, the 2012 Assessor's MV for each good sale needs to be reduced by the amount of 2011 NC after the sale date – as reported on the prelim 2012 MV by Parcel file.
- Note that NC which occurs in 2011 before the sale date is of no concern to us at this point because those sales already will have been rejected by the Regional Rep.

Also note that the old and new methodologies both use the same sales from Oct 2010-Sept 2011. If a sale was good for the study under the old methodology, it is good for the study under the new.

Summary of New Construction For New 12-Month State Board Methodology

- Oct-Dec 2010 Sales
If there is NC anytime during 2010, the sale is a reject for the 12-Month Study. (2010 NC before the sale = not valid with 2010 MV; NC after the sale = not valid with 2011 MV.)
- 2011 Sales
2011 NC before sale, the sale is a reject.
- Oct-Dec 2010 and 2011 Sales
2011 NC after sale, the sale is good **with the subtraction of the 2011 new construction from 2012 MV.**

2011 Sales Ratio Study Timing of New Construction and Its Impact on:

- 12 Month Tax Court Study (Sales Oct 2010 – Sept 2011)
- 12 Month State Board Study – New Methodology (Sales Oct 2010 – Sept 2011)

<u>Sale Date</u>	<u>New Construction</u>	<u>Status</u>
Oct 2010 – Dec 2010	1. Before Sale Date and after Jan 2010 Asst Date	Reject for 21-Month State Aid Study (Also = Reject for 12-Mo Studies)
	2. After Sale Date but before Jan 2011 Asst Date	Reject for all 2011 Studies
	3. After Sale Date and after Jan 2011 Asst Date but before Jan 2012 Asst Date	Good for 12-Mo Tax Court Study and Good for 12-Mo State Board Study if subtract new const from 2012 Assessor's MV
Jan 2011 – Sept 2011	4. Before Sale Date and after Jan 2011 Asst Date	Reject for all 2011 Studies
	5. After Sale Date but before Jan 2012 Asst Date	Good for 12-Mo Tax Court Study and Good for 12-Mo State Board Study if subtract new const from 2012 Assessor's MV

New Construction Examples

Timing is everything --

Examples for 2011 Study:

- Property sold in Nov 2010 for \$100,000
 1. \$70,000 structure added in May 2010
 2. “ “ “ “ Dec 2010
 3. “ “ “ “ July 2011

- Property sold in April 2011 for \$100,000
 4. \$70,000 structure added in Feb 2011
 5. “ “ “ “ July 2011

Examples of New Construction 2011 Sales Ratio Study for 12-Month Tax Court Study and 12-Month State Board Study (New Methodology)

Example 1:

Sale Date: Nov 2010

Sale Price: \$100,000

New Construction: \$70,000 structure added in May 2010

Status: Reject by Regional Rep

Explanation: This sale would be rejected because the new construction occurred between the Jan 2, 2010 assessment date and the Nov 2010 sale date, making this sale invalid for the 2011 21-Month State Aid Study. Because the sale is invalid for the 2011 21-Month State Aid Study, it is also considered to be invalid for the 2011 Tax Court Study and State Board Study.

Example 2:

Sale Date: Nov 2010

Sale Price: \$100,000

New Construction: \$70,000 structure added in Dec 2010

Status: Reject by Regional Rep

Explanation: This sale would be rejected because the new construction occurred between the Nov 2010 sale date and the Jan 2, 2011 assessment date, making this sale invalid for the 2011 Tax Court Study and the State Board Study.

Example 3:

Sale Date: Nov 2010

Sale Price: \$100,000

New Construction: \$70,000 structure added in July 2011

Status: Sale is good for study but reduce 2012 Assessor's MV by new construction amount reported on prelim 2012 MV by Parcel file

Explanation: This sale is good in relation to the 2011 Assessor's MV for the 2011 Tax Court Study. However, to use the sale relative to the 2012 Assessor's MV for the 2012 State Boards, **the amount of new construction that occurred in 2011 must be subtracted from the 2012 Assessor's MV.**

Examples of New Construction (Cont)

Example 4:

Sale Date: April 2011

Sale Price: \$100,000

New Construction: \$70,000 structure added in February 2011

Status: Reject by Regional Rep

Explanation: This sale would be rejected because the new construction occurred between the Jan 2, 2011 assessment date and the April 2011 sale date, making this sale invalid for the 2011 Tax Court Study and the State Board Study.

Example 5:

Sale Date: April 2011

Sale Price: \$100,000

New Construction: \$70,000 structure added in July 2011

Status: Sale is good for study but reduce 2012 Assessor's MV by new construction amount reported on prelim 2012 MV by Parcel file

Explanation: This sale is good in relation to the 2011 Assessor's MV for the 2011 Tax Court Study. However, to use the sale relative to the 2012 Assessor's MV for the 2012 State Boards, **the amount of new construction that occurred in 2011 must be subtracted from the 2012 Assessor's MV.**

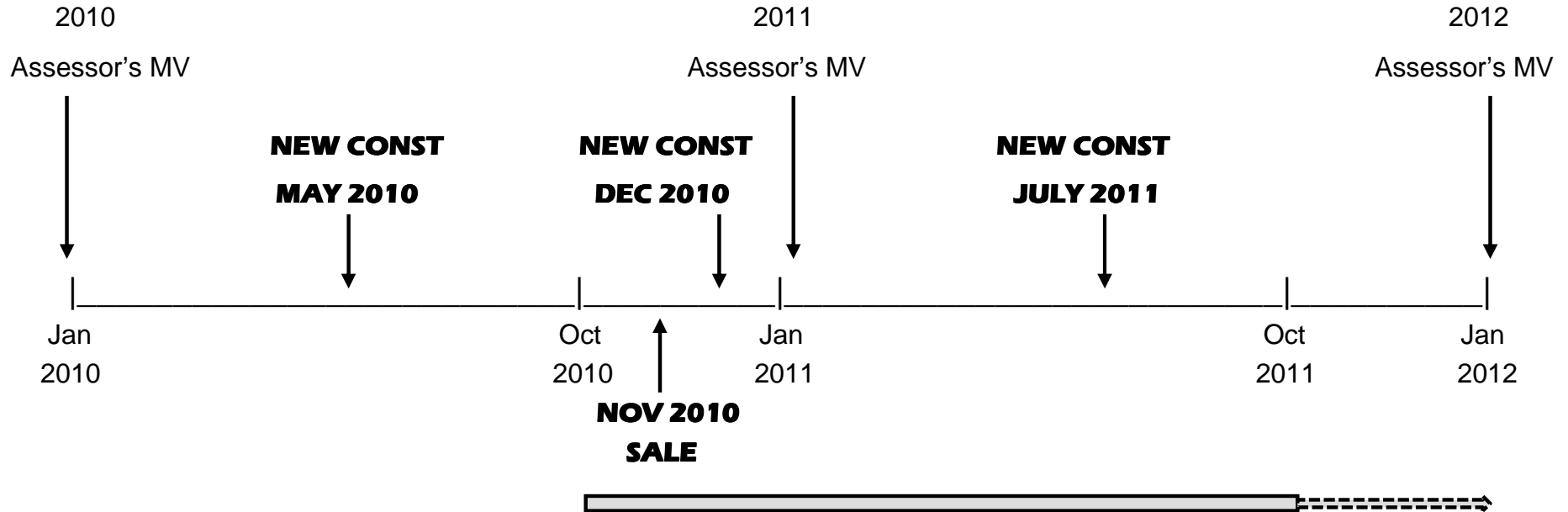
Timelines of New Construction Examples



2011 Sales Ratio Study
 12-Month State Board Study
 for 2012 State Board of Equalization
 Sales from Oct 2010 – Sept 2011

New Methodology – Uses 2012 Assessor’s MV’s and Sale Prices Time Adjusted to Jan 2012

TIMELINE -- NOVEMBER 2010 SALE WITH 3 EXAMPLES OF NEW CONSTRUCTION



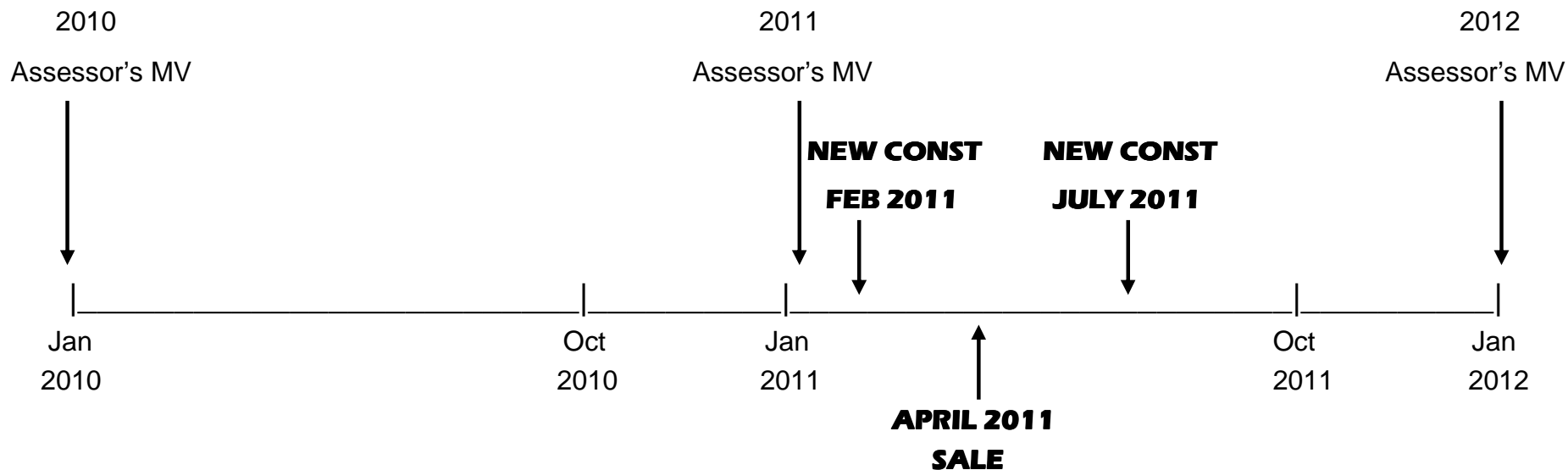
Sales from Oct 2010 – Sept 2011

Sales: Oct 2010 – Sept 2011
 - Compared to Jan 2012 Assessor’s MV’s (reduced by amount of 2011 New Construction after the sale)
 - Sale Prices Time Adjusted to Jan 2012

2011 Sales Ratio Study
12-Month State Board Study
for 2012 State Board of Equalization
Sales from Oct 2010 – Sept 2011

New Methodology – Uses 2012 Assessor's MV's and Sale Prices Time Adjusted to Jan 2012

TIMELINE -- APRIL 2011 SALE WITH 2 EXAMPLES OF NEW CONSTRUCTION



Sales from Oct 2010 – Sept 2011

Sales: Oct 2010 – Sept 2011
- Compared to Jan 2012 Assessor's MV's (reduced by amount of 2011 New Construction after the sale)
- Sale Prices Time Adjusted to Jan 2012

New Construction/Physical Change Additional Issues

- Emphasize increased importance of timely and accurate prelim MV by Parcel files.
- Time will be tight in the spring.
 - Limited time after the prelim MV by Parcel files come in to clean up any problems with the files.
- Most parcels should match correctly with the 2012 MV by Parcel file. However, there will be some sales for which the 2012 MV data is questionable. How should we deal with these sales?
 - Large amount of new construction from 2011 to 2012 (40%, 60%, 80%?)
 - Huge change in MV from 2011 to 2012 - but no NC listed – i.e., extreme sales ratio for 2012.
 - This could be caused by erroneous data on MV file or by physical change such as fire or destruction to the property in 2011 after the sale.
 - Sales that do not match with the 2012 MV by Parcel file - perhaps because of a changed or split parcel number.
- During Value Pickup in Dec/Jan/Feb, try to correct parcel numbers where possible to make them accurate for the match with the 2012 prelim MV by Parcel file in the spring.

New Methodology – What will change?

- State Board ratio will be based on current assessment, not previous assessment
- Will require assessments to approximate current market (no lag)
- One-time transition may require ‘extra’ change
- Benefit – State Board and Tax Court ratios in alignment
- New methodology is more consistent with IAAO Standards

Implementation Issues

- New construction after sale
- Transition year in changing markets
 - One-time need to do extra change
 - Can do this over two years
 - 100% is assessor's friend
- Data gathering challenges
 - Accurate, timely preliminary MV by Parcel file
 - Parcel number mismatches, data problems with MV by Parcel file
 - Little time to edit/correct data files in spring
- Sales chasing tests
- Ag borders

Implementation (continued)

- Time adjustment timeliness depends on sales reporting
 - As with old method, time adjustments are available in December/January
 - Statewide eCRV or earlier submission of sales files make fall preliminary adjustment possible
 - In short term, fewer sales mean fewer time adjustments

Implementation (continued)

- Basic calendar for ratio studies doesn't change
 - Preliminary ratios, time adjustment factors & time adjusted sale prices in January
 - Assessor uses this information to set values
 - Assessor can appeal time adjustment with evidence
 - Preliminary 2012 values used for State Board ratio
 - Board order based on State Board ratio and other information shared between assessors and regional reps