

Town Response to Questions Posed During September 16th Assessing Public Input Session

On Monday, 16 September 2019, the Hanover Advisory Board of Assessors held a forum to give property owners the opportunity to voice their concerns regarding the 2018 assessment statistical update and abatement process. A series of questions came out of that public meeting which the Board of Assessors asked the Town to answer in response to the public input received. Questions raised were organized into several categories including: 1) the Statistical Revaluation Process; 2) Calculation of Land Values; 3) Property Valuation and Sales Chasing; 4) Overview of Assessment Output; 5) Role of the Board of Assessors and the Abatement Process; and 6) Where Should the Town Go From Here. A response to each of these subject areas is outlined below.

A complete list of the questions generated at the public forum can be found here: https://www.hanovernh.org/sites/hanovernh/files/uploads/2018_revaluation_update.pdf

Overview:

Before specific questions are addressed an overview might be helpful.

Prior to the 2018 revaluation a software change was made. The data transfer did not go well and concerns about the data drove a decision to conduct a time consuming, high-level survey of all homes.

The time required to complete the revaluation resulted in new valuations being sent to property holders just days before their tax bills arrived, thus eliminating the opportunity for an informal review of the new values with the Assessor or for property holders to plan for any tax increases.

About 350 formal abatement requests were submitted compared to the normal 35. With each request requiring a home visit by the Assessor to confirm the accuracy of the data card, followed by subsequent review by the Board of Assessors, the system was overwhelmed and not all requests could be heard before some property owners were forced to file an appeal with the state in order not to lose their appeal rights.

In order to ensure the accuracy of the current assessments and to regain confidence in the process, the Town will be hiring a consultant to advise on the implementation of the new software and will do a new revaluation as soon as is possible, hopefully by 2021.

With this overview in mind, more detailed answers to the questions asked follows.

Process the Town Utilized to Perform the Statistical Valuation Update:

During the public input session, questions pertaining to the process utilized to perform the statistical valuation update ranged from: 1) why there was need for a change in software utilized by the Town for assessments; 2) why there was a delay in property owner notification of their revised values prior to the issuance of tax bills in November of 2018; to 3) whether or not the

Town had an option to delay implementation of the statistical valuation update given the notification delay.

The need for an assessing system software change was principally brought about by the Town's existing vendor, Vision and the Assessor's expertise with Patriot. The legacy system used by the Town was built upon an Oracle database platform that was no longer being supported by Oracle or Vision. Vision clients were notified in the summer of 2016 that the product in use would no longer have the support of the company, but their clients could migrate or upgrade to their newest platform for a conversion fee. The cost of conversion was significant and many NH communities using Vision were forced to make decisions regarding their options either to pay the conversion fee and purchase the new Vision upgrade or migrate to another assessment software system. This was a major topic of discussion within the NH Assessing community beginning in mid-2016

As Town staff reviewed the cost to convert to the new Vision software product and compared the cost and features with the features provided by other software packages, we opted to obtain pricing from another vendor. There is a finite universe of assessment software packages available from which a community can choose. There is a modest in-state firm that many small communities utilize, but it tends not to perform well outside of the residential arena. Of the large national firms, two are located right here in New England making them the most attractive, Vision and Patriot. The Town had already received a cost estimate from Vision, so we sought a cost estimate from Patriot for comparison. The Patriot cost estimate was lower and, additionally, their newest product offered a significant improvement over the existing product in terms of features and abilities of the software, making the decision to migrate to Patriot relatively straightforward.

Data conversion from Vision to Patriot began in May of 2017 and took the better part of the year to complete. Patriot and Town staff conducted numerous test runs of the data to insure accurate transfer of the property tax record card information from Vision to the Patriot software. The conversion of parcel and building sketches included on each property record card was the single most difficult transfer challenge because Vision viewed the sketches as proprietary and would not release the coding without assessing Hanover a substantial fee. The only other option would have been to draw the property sketches all over again by hand. After considerable discussions with Vision, we opted to pay the fee to transfer the sketches.

The statistical update process was begun in earnest in late May of 2018, after the building permits issued between April 1, 2017 and March 30, 2018 had all been visited and property cards updated, so that a complete and updated database could be analyzed. As the update began to take shape in July, the Assessor was concerned about the number of overrides he had to perform to correct individual property values which he believed to be inaccurately calculated by the Patriot software, causing the overall assessments to skew. Given the number of anomalies which surfaced in the initial update, the Assessor felt it was important to do a town-wide windshield survey of the Town in order to review all property record cards with the goal of eliminating the need to override values and at the same time to correct any other obvious data issues.

Though the data validation was needed to further clean the data, the downside was it pushed the setting of final values to the extreme end of the normal timeline and thus eliminated any

opportunity to hold informal meetings with the Assessor to correct property records and allow for administrative modifications.

In hindsight, it would have been better to delay the tax bill mailing another 30-days so that even a shortened informal hearings process could have been held, which could have substantially reduced the number of formal appeals filed and heard.

Calculation of Land Value

Land value is calculated in conjunction with local zoning. Zoning is a key factor as it establishes the minimum land area required in each zone to support a building. Undersized or grandfathered, developed lots are valued on a sliding scale as they are still considered a building lot. Vacant land sales, when and where available, are analyzed to establish base building lot values within each zone. When a property is sold consisting of land and building, local sales data drives the calculation of land value. Individual parcels are then adjusted for neighborhood (location) and physical attributes (topography, easements, etc.).

Neighborhoods are simply a gathering or clustering of similar properties in a similar location and are drawn and established by looking at sales patterns. Neighborhoods change and shift with the passage of time. A neighborhood at one period in time may become two or more at a later time. Or, from an assessing standpoint, a neighborhood may be absorbed by an abutting area and cease to exist altogether.

In Hanover there are considerable differences in value across both residential neighborhoods and within the Downtown retail and office district reflecting location and relative demand for specific types of properties in specific locations. This is not an unusual phenomenon in communities across the country where just one block can make a major difference in market value.

In Hanover there are 18 main neighborhood categories, as follows:

- Business (1 & 2)
- Residential/Business
- Dartmouth
- Downtown
- Forest
- Goose Pond
- Occom Pond
- Rural (1 to 4)
- Residential (1 to 6)

The Business, Rural and Residential neighborhoods each have further category refinements to reflect the nuances within them. Each condominium development was also assigned its own neighborhood simply as an aid in analysis.

What is “Sales Chasing” and Did it Occur in the 2019 Statistical Update?

Sales chasing is the practice of changing an individual property assessment to or near to the recent selling price of that property with the intention of manipulating equalization ratio study results.

Sales chasing may be accomplished by changing a characteristic of a sale property while not considering corrections to that same characteristic on similar unsold properties. Characteristics may include quality of construction, neighborhood factors, special site pricing, etc.

Correcting erroneous data as described on the existing property record card is not sales chasing.

When a single property assessment is changed in the direction of the sale price and that same change is not made to other similar unsold properties, the results may not accurately reflect the assessment level of the municipality. Municipal assessors do not engage in sales chasing.

The ratio analysis performed by the NH Department of Revenue Administration is done independent of the Town. The Town uploads current assessed values so the State may conduct the analysis. It gathers sales data from each County Registry of Deeds. It also receives the PA-34 Sales Validation Questionnaire prepared for each real estate closing to assist in determining valid sales. Municipalities also have an opportunity to provide input on sales validity if they have knowledge about a specific transaction. The Town must also explain any changes in assessed value from one year to another to avoid being accused of sales chasing.

Output Overview

The 2018 update resulted in an approximate 18% increase in the Town’s overall value over the 2013 established values. It should be noted, however, that there are three separate and distinct residential real estate markets in Hanover and real estate values across the three markets do not change at the same general rate.

The first real estate area is the east side, or Forestry and Recreation zone. This area has seen the least amount of real estate activity and overall growth. The primary reasons for this appear to be the seasonal use restriction of the zone and the requirement that a building lot is a minimum of 50 acres.

The next area is the Rural Residence zone, west of the Forestry and Recreation zone, largely consisting of those properties which require one to drive to reach the center of town. These areas have seen steady, moderate growth as one would anticipate.

The last distinct residential area is the area within walking distance of the general downtown areas, consisting of the General Residence and Single Residence zones. This area has seen rapid and sometimes explosive growth since 2013, with some properties selling for double their 2013 assessment. It is these properties that are feeling the biggest increase in property tax bills, as the tax rate did not drop equally as much as their values increased.

Change in Property Values 2013-2018 (Note: Increase/Decrease Breakdown for Total of 3,190 Taxable Properties)

<u>No of Properties</u>	<u>Percentage Increase/Decrease</u>
28	-31 to - 50%
163	-11 to -30%
236	-01 to -10%
49	No change in value
1,221	+01 to 20%
1,160	+21 to 60%
333	+60 to 100% or greater

The properties that saw a decrease in value represent 14% of the total number of taxable properties, while the properties that saw an increase represent 85%. There are 2% that had no change in overall value. Property values can go down for any number of reasons including: 1) a change in use; 2) incorrect data reflected on the property record card that was corrected; 3) the property may have been placed into Current Use; 4) additional depreciation may have led to a decrease in value; or 5) the property may be less desirable than previous assessment.

“Mass appraisal” is the process used to determine value by a municipal assessor. It is defined as the use of standardized procedures for collecting data and appraising property to ensure that all properties within a municipality are valued uniformly and equitably. It is the process of valuing a group of properties as of a given date, using common data, employing standardized methods and conducting statistical tests to ensure uniformity and equity in the valuations. Assessors use mass appraisal procedures and techniques when determining the fair cash value of properties in their municipalities. The intended result of the employment of mass appraisal techniques is that, first, by the best means available, the value computed for properties approximates what they sold for in a large number of cases. Second, that the difference between the values computed for properties, and their actual adjusted sales price is minimized in a large number of individual cases. The goal is to achieve assessment equity for the largest number of properties; that is, that a computed value approximates the actual adjusted sales price for the largest number of cases. Therefore, it is not uncommon for some parcels to increase in value, while others remain relatively unchanged or even decrease in value.

Unlike an independent appraiser, the assessor cannot provide a property owner with two or three individual properties used to establish their own property value because that would misrepresent the mass appraisal methodology used. Instead, the Assessor can provide a list of all the sales used in the sales comparison model for your neighborhood. This may include up to three years of sales.

Note that none of the properties that sold may be identical to yours, particularly if you live in a unique house. Sometimes the assessor may need to reach into other nearby neighborhoods to show

you a sale of a similar property. A unique home's value may differ from other homes in the neighborhood based on characteristics such as land value, size and amenities.

When a property owner looks at sales in their neighborhood to help determine if they believe the assessment is a fair and accurate reflection of the value, please keep in mind the following:

- In mass appraisal, assessors review hundreds of sales, not just the two or three that may appear most relevant from an independent appraisal standpoint;
- The assessment date is April 1 of each year, so sales that occurred after that date will not be considered in establishing current year values.

Both assessors and the NH Department of Revenue Administration, when analyzing sales using mass appraisal techniques, focus on a series of statistical values to help them determine equity and fairness of value. These values include:

- *Median Sales Ratio* – Calculation of median sales ratio is a straightforward technique. First, a Sales Ratio is calculated for each sale in the sales base. This is done by dividing the Assessor's Actual Value by the Adjusted Sales Price (for example, if the Assessor's Actual Value for a property is \$95,000 and the Adjusted Sales Price is \$100,000, the Sales Ratio for that property would be .95). Sales Ratios for all qualified sales in the sales base are then arrayed from lowest ratio to the highest and the Median Sales Ratio is calculated. ***New Hampshire assessment regulations require that the Median Sales Ratio for vacant land, commercial property, and improved residential property must fall between .90 and 1.10 for each class of property.***
- *Coefficient of Dispersion* – The second statistical test that is applied to a sales base is calculation of the Coefficient of Dispersion (often referred to as COD). After the Median Sales Ratio is calculated, it is subtracted from each sold property's Sales Ratio. The result is called the Absolute Deviation (ignoring a positive or negative sign of the sum) for each sold property. For example, if a property's Sales Ratio is 1.05, the Absolute Deviation between it and a Median Sales Ratio of 1.00 would be .05. The Absolute Deviation between a Sales Ratio of .95 and a Median Sales Ratio of 1.00 would also be .05. After all Absolute Deviations are computed, they are added, and an Average Absolute Deviation computed. The Average Absolute Deviation is then divided by the Median Sales Ratio. This equals the Coefficient of Dispersion. ***New Hampshire regulations require that the Coefficient of Dispersion must be less than or equal to .2000 (or 20.00%) for each class of property.***
- *Price Related Differential* – The mean divided by the weighted mean. The statistic has a slight bias upward. Price-related differentials above 1.03 tend to indicate assessment regressivity; price-related differentials below 0.98 tend to indicate assessment progressivity. ***New Hampshire regulations require that the Price Related Differential must fall between .98 and 1.03 for each class of property.***

Board of Assessors and Abatement Process

The Advisory Board of Assessors was established by an act of Town Meeting in 1931 and is a 3-person elected board of volunteer citizens "... to act with the Selectmen in the assessment of real estate until such time as the Advisory Board shall be discontinued by vote in town meeting...". As with other municipal boards such as the Select Board, Planning Board, or Zoning Board, there are no specific experience requirements which members of the Advisory Board of Assessors must have nor is there specific State-provided training required. Members must simply be a resident of the community in which they serve. In practice, the Town seeks potential new members for the Advisory Board of Assessors who possess either a real estate or finance background.

Under current NH law, all assessments are deemed fair and accurate, until proven otherwise by the property owner. Therefore, when examining abatement requests and scheduling hearings, the Advisory Board of Assessors is completely dependent upon the evidence presented by the property owner to show and establish that the assessment established by the assessor is wrong.

The Town's website provides information regarding how a taxpayer should prepare for and file a request for abatement. The abatement form available to all taxpayers outlines the specific information required for submission in order to make a clear case for the Advisory Board of Assessor to consider: <https://www.nh.gov/btla/forms/documents/abatement.pdf>

What Options Does Hanover Have to Revisit the Statistical Revaluation Given the Extent of Public Concern Regarding the Accuracy of the 2018 Statistical Update

During the public input session in September, questions ranged from: 1) could the Town revert to the 2017 values to; 2) can the Town do a full measure and list revaluation again before the statutory requirement that Hanover perform its next full measure and list revaluation in 2023.

Legally it is not possible for the Town to revert to 2017 values as those values in no way reflect anything near full market value as required by statute.

However, given the community concerns and to try and address them in a complete fashion, the Town is looking to be more proactive and has sent out a Request for Proposals (RFP) to conduct a full measure and list inspection of all real property with the goal and purpose to update all the inventory cards and related values by no later than 2021.

A second RFP has also been issued to hire an independent consultant to conduct a review and audit of the 2019 reassessment to make certain it was conducted as accurately as possible.

Further discussions are also taking place about the possible need for additional staffing resources within the Assessing Office to establish a rotation program of all real property, with the outcome of each property being visited and inspected at least in a five-year cycle.