

MEMORANDUM

DATE: September 24, 2002

TO: The Board of Supervisors

FROM: Richard J. Sebastian, Director of Real Estate Assessments

SUBJECT: Real Property Assessments

The Code of Virginia authorizes localities in Virginia to levy taxes on real property. There is no upper limit on the tax rate that may be imposed. The Code also provides that all general reassessments or annual reassessments shall be at market value.

Cities with a population over 30,000 must reassess at least every other year and counties with a population over 50,000 must have a general reassessment at least every four years. Localities can choose to reassess more frequently. James City County created the Office of Real Estate Assessments in 1972, electing a general reassessment on an annual basis.

Each locality sets a nominal tax rate based on \$100 of assessed value. The Virginia Department of Taxation conducts an annual assessment / sales ratio study for each locality that evaluates actual sales against the assessed values. Ratio data are analyzed in two ways to measure the quality of assessments. Measures of central tendency, such as the median ratio provide a measure of the general level of the assessments. While the coefficient of dispersion measures the average percentage that the individual ratios vary from the median ratio. The coefficient of dispersion, is the chief measure of uniformity and should not exceed fifteen percent. The assessment ratio study evaluates how successful each locality is in reaching 100 percent of market value. The nominal tax rate multiplied by the "assessment/sales" or "median" ratio produces the effective tax rate. The State publishes annual listings of localities with nominal tax rates, the median ratio, and the effective tax rates.

Combined, the ratio of assessments and the coefficient of dispersion are important in determining the relative equity of the payment of real property taxes. A ratio of 94 percent, and a coefficient of five, means that the median assessment of all properties sold was at 94 percent of the actual sales prices and 50 percent of all the assessments were within 89 percent and 99 percent of the sales prices. This has been a consistent target of the County, a mid-90s assessment ratio and a coefficient of dispersion that, combined with the assessment ratio, is under 100 percent.

In FY 2003, as you'll recall, the Board of Supervisors of James City County balanced a budget at the current rate of \$0.87 but eliminated the additional levy of \$0.10 for the Transportation Improvement District.

James City County has stayed with an annual assessment process for a number of reasons:

The first is the predictability of an annual revenue increase in committing to long-term borrowing or to contractual payments such as those required under the City/County school contract. That annual revenue increase takes some pressure off the tax rate in the annual budget process.

The second is that it helps facilitate an open market in real property; annual updates to property information and estimated values help both sellers and purchasers of property in James City County. Real estate brokers, mortgage lenders, and property insurers depend on updated information for real property to offer residents the most efficient, and least expensive, services.

The third is that is the best method of maintaining equity among real property taxpayers; annual updates keep the playing field level in estimating the proportionate share of tax revenue expected from each taxpayer. According to the International Association of Assessing Officer' , Standard on Property Tax Policy, The Principal of Annual Assessment, "Current market value implies annual reassessment of all property. This does not necessarily mean that every property must be reappraised each year. In annual assessment , the assessing officer should consciously reevaluate the factors that affect value, express the interactions of those factors mathematically, and use mass appraisal techniques to estimate property values. Thus, it is necessary to observe and evaluate, but not always to change, the assessment of each property each year to achieve current market value." The obvious advantage of annual reassessments is the ability to review assessments every year and to react to market changes that affect property values.

The fourth is that it keeps the effective tax rate more closely aligned with the nominal rate since public service property is taxed at the effective rate, and not the nominal rate; this is important for both annual revenues and tax equity.

Finally, by trying to incrementally adapt to an active market, it avoids the much larger surges that might occur in a less frequent cycle.

Even with an annual reassessment process, the County (and most other jurisdictions in the "urban crescent" over the past four years) has seen a steady erosion in the median ratio – actual sales prices increasing at a rate faster than reassessments. The County's median ratios for the last four years:

<u>Year</u>	<u>Percent</u>
1997	94.39
1998	93.99
1999	93.83
2000	90.22

In addition to taxes defined by an assessment process relating to estimates of market value, the County has created a series of exemptions and deferrals to recognize that quality of life can be enhanced by alternatives to a market-based valuation of real property.

Land use taxation is a viable option where tax payments are based on agriculture, horticulture, or forestry uses rather than market value for thousands of acres in the County. The County has adopted a tax rebate system for qualifying commercial and industrial economic development investments that produce tax revenue and jobs. Tax exemption programs are offered to elderly and disabled homeowners whose net worth and income are below certain thresholds. The County has taken advantage of most of the alternatives to estimated market value allowed by the State Code.

I believe this memorandum is responsive to the specific issues raised by the Board. We would be happy to get into as much detail as needed to address other issues or questions.

Richard J. Sebastian

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assessment.mem

Attachments:

1. Hampton Roads Communities - Real Property Taxation
2. Counties with Annual Assessment Cycles
3. All Localities with Annual Assessment Cycles