

# Fair Market Value and Equalization

Doc ID	Category	RI	SPAN	Buyer
201108037575424028	Residential-1		543-171-10648	AYRES ALICE Location 978 GROV...
201308081127728013			543-171-13088	BARLOW JESSICA Location 36 BLY...
2011070811203860035			543-171-11150	BIEDERMAN AL Location 37...
201211081133378042			543-171-12384	BISHOP JAD Location...
201108037575401040			543-171-10648	BLESS CHRIS Location...
201108051123012028			543-171-11351	BOU...
2011307575742050 *			543-171-11455	
201108091115210043			543-171-11459	
201212287575791039			543-171-107...	
201110101128141042			543-171-...	
201110101128141038			543-171-...	
201208081118908034			543-171-...	
20131107113373023			543-171-...	
20111041130750004			543-171-12885	



**Sales Town Summary Report**

5 Transactions (Includes Outliers/Extreme/Influentials)

94,720 Average Sale Price  
 103,600 Average Listed Value  
 108.32 Average Ratio  
 110.57 Median Ratio  
 83.90 Low Ratio  
 126.42 High Ratio  
 0.99 Price Related Differential (Regression Index)  
 9.39 COD  
 0 Number of Transactions with Assessment Ratio Between 98 and 1.02  
 0% Percent of Transactions with Assessment Ratio Between 98 and 1.02

Town Sample Valid? YES (90% confident that true aggregate ratio is within 10% of sample ratio. See Sampling Error.)

Original Data (All Valid Sales Transactions)

94.78 Low Inter-Quartile Value  
 120.73 Hi Inter-Quartile Value  
 25.95 Inter-Quartile Range

55.85 Value of Outlier Low Limit  
 159.67 Value of Outlier High Limit  
 16.92 Value of Extreme Low Limit  
 198.60 Value of Extreme High Limit

0 Number of Low Outliers  
 0 Number of Hi Outliers  
 0 Number of Low Extreme/Influentials  
 0 Number of Hi Extreme/Influentials

**RATIOS and CONFIDENCE INTERVALS**  
 (Trimmed Data)

102.67 Low 90 Percent Value of Aggregate  
 116.08 Hi 90 Percent Value of Aggregate  
 109.38 Aggregate Ratio  
 6.13% Sampling Error  
 7.16 Weighted Standard Deviation

Doc ID	Category	RI	SPAN	Buyer	Date	Sale Price	Listed Value	Ratio
00012-0045	Single Family				11/15/2013			
00040-0335	Single Family				04/28/2011	515,000	463,500	90.00
00089-1344	Single Family				12/21/2012	233,000	232,800	99.83
00063-0431	Single Family				09/02/2011	235,000	235,000	100.00
00019-0838	Single Family				10/01/2011	102,120	243,000	103.40
00112-0087	Single Family				05/10/2012	135,000	100,800	98.71
00065-2839	Single Family				10/15/2013	390,000	149,400	110.67
					10/12/2011	228,890	397,400	101.90
							209,100	91.33



# Fair Market Value and Equalization



- **Why are these important in the appeals process?**
- At all levels of appeal- hearing officers or boards of appeal are charged with the following tasks:
  1. Find Fair Market Value of the property under appeal
  2. Equalize that value to the level of assessment that is similar to other like properties by applying a ratio that is appropriate.

# Fair Market Value



- **What is the fair market value (FMV) of the property?**
- The law defines fair market value this way (32 V.S.A. § 3481(1)):
- The estimated fair market value of a property is the price which the property will bring in the market when offered for sale and purchased by another, taking into consideration all the elements of the availability of the property, its use both potential and prospective, any functional deficiencies, and all other elements such as age and condition which combine to give property a market value.

# Fair Market Value



- Fair Market Value is:

**“the price which a piece of property will bring in the market when offered for sale and purchased by another, taking into consideration all the elements of the availability of the property, its use, potential and prospective, and all other elements which combine to give a piece of property a market value.”** *Petition of Mallary*, 127 Vt. 412 (1968).

# Fair Market Value



- In determining estimated fair market value, the sale price of the property in question is one element to consider, but is not solely determinative. . .32 VSA 3481.
- When would sales price not be a good determinative of fair market value? \*
  - Family sales
  - Bank sales/foreclosures
  - Parcel purchased by an abutting owner
  - Special financing

There are many examples- this list is not meant to be all inclusive.

# Grand Lists and Fair Market Value



- The goal of the grand list process is to determine the FMV (Fair Market Value) as of April 1<sup>st</sup> of each year. However, without completing a reappraisal each year this is not possible. In order to maintain equity (fairness) from one property to another, listers use their existing system to value new and changed properties until such time as a reappraisal is completed. This results in a grand list that typically moves away from fair market value over time. The equalization study is used to measure how close each town is to fair market value and how equitable (fair) assessments are within the town from one to another.

# Fair Market Value



- There are three approaches to value that may need to be considered to determine fair market value:
  - Cost Approach (used most widely for town-wide reappraisal – town's typically use a market adjusted cost to represent fair market value using the cost system)
  - Market Approach (also known as the Sales Comparison Approach- used most widely for bank financing/fee appraisal purposes)
  - Income Approach (typically used for income producing properties)

# The Equalization Study/CLA (Common Level of Appraisal)



- PVR looks at previous three years of sales in a town.
- The goal is to estimate the FMV of all the properties. If a sale is invalid it is not used.
- A town's CLA is calculated after removing extremes and researching outlier's individual properties (research at town level and state level).
- Appraisals are used when there is insufficient real estate sales to achieve a confidence level.

# The Equalization Study: Overview



1. PVR (Property Valuation & Review) compares (1) appraised (listed) values to (2) actual market sales (using three years of valid sales).
2. By comparing (1) and (2), PVR estimates (3) The equalized education property values (EPPV).
3. PVR compares the (1) appraised (listed) values to the (3) EPPV to determine the Common Level of Appraisal (CLA).
4. The CLA is used to equalize the education property tax rates on a town to town basis, as well as determine when a reappraisal is warranted.
5. The CLA is certified by PVR to the towns each year by January 1<sup>st</sup> and can be found on the final computation sheet.

# The Equalization Study/CLA



- The CLA measures how close the town's listed values are to fair market value (sales data).
- 100% CLA means the town grand list and EEPV (Equalized Education Property Value) are equal. It is highly unlikely that the numbers will be equal because that would mean the assessing officials perfectly determined how the market would perform.
- Under 100 CLA means the town undervalued the property and over 100 CLA means the town overvalued the property.

# The Equalization Study/CLA



- It should be understood that there are variations within this overall number and this may not be an appropriate equalization ratio for all properties or categories of properties. Boards can apply the CLA to FMV if no other credible evidence is submitted to the contrary.
- To equalize an individual property means to apply the CLA or appropriate ratio to the FMV to represent an equitable listed value after appeal.
  - Example fair market value was found to be \$100,000 and CLA is 95% =  $\$100,000 \times .95 = \$95,000$

# CLA Math



$$\text{CLA}^* = \frac{\text{Municipality's grand list value}}{\text{The Equalized Value}}$$

- **\*The CLA as calculated includes an adjustment for current use values and cable property but this is the basic information. When calculating town specific you would refer to your town's final computation sheet to see these values.**

# CLA Quiz



**1. A CLA of 96% means:**

- a) The properties on average are slightly undervalued.**
- b) The properties on average are slightly overvalued.**
- c) PVR would require a reappraisal of the properties.**

# Where is the CLA?



State of Vermont - Division of Property Valuation and Review

Certified Final Computation Sheet - Reprint

Thursday, April 23, 2015 7:42 AM

\*\*\* Equalization Study - 2014 \*\*\*

Addison		1003											
School District ID:	1	Category	Property Count	ED Form 411 Listed Value	CUSE Value	Education Listed Value Excl. CUSE	Municipal Listed Value Excl. CUSE	Applied Ratio	Education Equalized Value	Municipal Equalized Value	COD	Average LV In d. St. Exemption	
1	R1	231	63,392,200	0	63,392,200	63,362,200	107.15	59,162,109	59,134,111	9.35	274,295		
2	R2	236	71,653,870	405,400	71,228,470	71,168,470	112.17	63,883,810	63,830,320	9.34	306,750		
3	MHU	5	132,600	0	132,600	132,600	112.17	118,213	118,213	0.00	26,320		
4	MHL	16	2,922,770	7,100	2,915,670	2,915,670	117.17	2,605,729	2,605,729		187,419		
5	S1	78	23,482,200	0	23,482,200	23,482,200	112.17	20,934,474	20,934,474	13.08	301,054		
6	S2	16	7,137,868	124,400	7,013,468	7,013,468	112.17	6,364,637	6,364,637		506,906		
7	COMM	16	9,656,335	157,200	9,499,135	9,499,135	110.75	8,718,757	8,718,757	0.00	619,713		
8	CMA	0	0	0	0	0	0.00	0	0	0.00			
9	IND	0	0	0	0	0	0.00	0	0	0.00			
10	UE	1	3,011,000	0	3,011,000	3,011,000	99.19	3,035,588	3,035,588	0.00	3,011,000		
11	UO	0	0	0	0	0	0.00	0	0	0.00			
12	FRM	40	14,193,234	3,191,600	11,001,634	11,001,634	110.75	12,309,848	12,309,848		620,430		
13	OTH	97	591,600	0	591,600	591,600	100.00	591,600	591,600	0.00	6,099		
14	WOOD	6	66,700	28,900	37,800	37,800	110.75	60,174	60,174	0.00	31,167		
15	MISC	81	5,865,891	841,000	4,524,891	4,524,891	110.75	4,843,543	4,843,543		97,710		
			823	201,606,268	4,775,600	196,830,668	196,740,668		183,128,484	183,046,996			
<b>PERSONAL PROPERTY:</b>				<b>Cable:</b>		0	0	100.00	0	0			
				<b>Inventory:</b>		Inventory Exempt	0	100.00	Inventory Exempt	0			
				<b>Machinery and Equip:</b>		M and E Exempt	0	100.00	M and E Exempt	0			
<b>TOTAL PERSONAL PROPERTY:</b>						0	0		0	0			
<b>GRAND TOTAL (REAL and PERSONAL PROPERTY):</b>						\$196,830,668	\$196,740,668	110.09	\$183,128,484	\$183,046,996	10.97	Townwide COD	

LISTED VALUE of CONTRACTS AND EXEMPTIONS

Total Approved VEPIC:	0	Total Grandfathered Exemptions:	0
Total Approved TIF District:	0	Total Municipal Contracts (Owner Pays Ed. Tax):	0
Total Non-Approved Exemptions:	0	Total Special Exemptions Value:	0
Total Partial-Statutory Exemptions:	0	Total Current Use Reduction Value:	15,399,632
Total Veterans Exemptions EGL:	30,000	Total PVR-Applied - MGL/EGL:	0
Total Veterans Exemptions MGL:	120,000	Total PVR-Applied - EGL:	0
		Total PVR-Applied - MGL:	0

CLA is found here

Certified to County: \$183,128,000  
 Certified to State: \$183,128,000

MANUALLY ADJUSTED APPLIED RATIOS USED IN THE FOLLOWING CATEGORIES:

OTHER

# The Coefficient of Dispersion



- **Measures equity within a town's grand list/assessment practices. How much variance is there when you compare assessed values within the same town?**
- This is measured by comparing the variation of the ratios for all the sales used in the equalization study (3 years of valid sales).

# The Coefficient of Dispersion



- **When a town's assessments are all relatively close together, there is a low COD and a high degree of equity.**
- Example: A town has a CLA of 90%. Just about every parcel in the town is valued at close to 90% of its FMV. The end result is a very low COD.
- COD- In other words, what is the variation (or spread) within the dataset ratios?

# Summary



- PVR conducts an equalization study to equalize tax rates and to determine when towns need reappraisal.
- Fair market value and CLA (or other appropriate equalization ratio) are key factors to consider in all appeal considerations.

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