Fair Market Value and Equalization

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Fair Market Value and Equalization

- **<u>Why are these important in the appeals process?</u>**
- At all levels of appeal (beyond lister grievance) hearing officers or boards of appeal are charged with the following tasks:
  1. Find Fair Market Value of the property under appeal based on information presented.
  2. Equalize that value to the level of assessment that is similar to other like properties by applying a ratio that is appropriate.

2

Fair Market Value

- **What is the fair market value (FMV) of the property?**
  - Court cases and statute define FMV similarly as follows:

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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).

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Fair Market Value

32 V.S.A. § 3481 (1)(A)The estimated fair market value of a property is the price that 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 that combine to give property a market value. (cont..)

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Fair Market Value

32 V.S.A. § 3481 (1)(A) In determining estimated fair market value, the sale price of the property in question is one element to consider but is not solely determinative.

Recent Court Decision Martinez vs Hartford

Found that "sales price is strong presumptive evidence" further defining that is it not the sole determinative.

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Fair Market Value

- When might sales price not be a good determinative of fair market value? *
  - Family sales
  - Bank sales/foreclosures/liquidation sale
  - Parcel purchased by an abutting owner
  - Property sold in more than one town
  - Sale between corporation and corporation stockholder
  - Sold to a tenant/rent to own
  - Tax sale

There are many examples- this list is not meant to be all inclusive. For a full list consult PVR district advisors or on the tax.vermont.gov website search for myVTax Guide: Sale Validation for Equalization Study GB-1211.

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Grand Lists and Fair Market Value

- The goal of the grand list process is to determine the FMV (Fair Market Value) as of April 1st 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.

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Fair Market Value

- How can the town listers/assessor represent Fair Market Value?

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Fair Market Value

- There are three approaches to value that 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 three approaches may not be applicable for all properties, but they should be considered, and they all should reflect an estimate of fair market value.

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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)

- In the cost approach typically a nationwide cost system is used to uniformly and consistently collect data for mass appraisal purposes. This data is then adjusted to the market at the time of reappraisal.

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Fair Market Value

Sample
Cost Sheet

05/03/2021 Page 1

Itemized Property Costs

From Table: MAIN Section 1 Record # 666

Property ID: 41100224080 **Span #:** 354-109-19668 **Last Inspected:** 09/08/2008 **Cost Update:** 03/19/2021

Owner(s): ALOSI TERI

Address: 3 MAIN STREET
City/St/Zip: SAMPLEVILLE 05000
Location: 3 MAIN ST
Description: DWL & LAND
Tax Map #: 16-02-24.000

Sale Price: 0 **Book:** 80 **Validity:** No Data
Sale Date: 01/09/2017 **Page:** 321
Bldg Type: Single **Quality:** 3.00 AVERAGE
Style: 2 Story **Frame:** Studded
Area: 2104 **Yr Built:** 1960 **Eff Age:** 48
 # Rms: 4 **# Bedrm:** 2 **# Kitchns:** 1
 # 1/2 Baths: 0 **# Baths:** 1

Item	Description	Percent	Quantity	Unit Cost	Total
BASE COST					
Exterior Wall #1:	Plywood / Ht=8	100.00		65.70	
ADJUSTMENTS					
Roof #1:	Metal-Chn	100.00			
Subfloor	Wood				
Floor cover #1:	Allowance	100.00		3.20	
Heat/cooling #1:	Space Htr	50.00		-0.81	
Heat/cooling #2:	None	50.00		-1.58	
Energy Adjustment	Average				
Foundation Adjustment	SF <18"			-1.94	
ADJUSTED BASE COST			2,104.00	64.58	135,865
ADDITIONAL FEATURES					
Fixtures (beyond allowance of 8)			-3.00	1,100.00	-3,300
Roughins (beyond allowance of 1)			-1.00	450.00	-450
Features #1:	ATT-SHED		168.00	8.00	1,344
Porch #1:	WoodDck/NoWall/Roof/N		100.00	28.23	2,823
Garage/Shed #1:	A/1S/Hardbrd/No		245.00	27.91	6,838
Subtotal					143,119
Local multiplier		1.25			
Current multiplier		1.00			
REPLACEMENT COST NEW					178,899
Condition	Fair	Percent			
Physical depreciation		50.00			-89,449
Functional depreciation					
Economic depreciation					
REPLACEMENT COST NEW LESS DEPRECIATION					89,400

LAND PRICES	Size	Nbhd Mult	Grade	Depth/Rate	
SI Bldg Lot	2.00	1.00	1.00		65,000
Total	2.00				65,000

SITE IMPROVEMENTS	Hsite/Hstd	Quantity	Quality		
Water	y / y	<Typical	Below Avg		3,000
Sewer	y / y	<Typical	Below Avg		6,000
Total					9,000

OUTBUILDINGS	Hsite/Hstd	% Good	Size	Rate.	Extras	
DGS 1S	y / y	50	288	18.80		5,400
Total						5,400
Miscellaneous adjustment						50,000
TOTAL PROPERTY VALUE						218,800
NOTES				HOUSESITE VALUE :		218,800
				HOMESTEAD VALUE :		218,800
OLD COUNTY ROAD:						

MicroSolve CAMA 2000

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Fair Market Value

- Market Approach - (also known as the Sales Comparison Approach- used most widely for bank financing/fee appraisal purposes
- The theory of the market approach is the buyer will not pay more than what they could buy a reasonable substitute for.
- In this case the sales of comparable properties that could reasonably substitute for the subject property are used to develop an estimate of value.

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Market Approach - A sales grid may be used to demonstrate fair market value using comparable sales and adjusting them to the subject property for an indication of value.

COMPARABLE SALES GRID (example form for use in appeals)

Item	Subject Property	Comparable #1		Comparable #2		Comparable #3	
Address							
Proximity to Subject							
Sale Price / Sale Date		$		$		$	
	Description	Description	Plus/Minus	Description	Plus/Minus	Description	Plus/Minus
Date of Sale & Time Adjustment			$		$		$
Acreage			$		$		$
Location / Neighborhood			$		$		$
Site / View			$		$		$
House Style / Appeal			$		$		$
Constr. Quality			$		$		$
Age			$		$		$
Condition			$		$		$
Living Area Sq Ft			$		$		$
Count	Total/Bdrms/Bath / / /	Total/Bdrms/Bath / / /	$	Total/Bdrms/Bath / / /	$	Total/Bdrms/Bath / / /	$
Gross Living			$		$		$
Basement & Bsmt Fin Rooms			$		$		$
Functional Utility			$		$		$
Garage / Carport			$		$		$
Other Outbuildings			$		$		$
Porches & etc.			$		$		$
Energy Eff. Items			$		$		$
Other (Include Remodel)			$		$		$
Net Adjustment		$		$		$	
Indicate Value of Subject		$		$		$	

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Fair Market Value

- Income Approach
  - If the property is income producing the typical buyer would look at the income stream and the expenses for the property
  - In this case it would make sense to use this data and comparable income data to develop an estimate of value

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Fair Market Value

- There are three approaches to value that need to be considered to determine fair market value:
  - Any combination of the three approaches to value may be used.

The most important fact is that all approaches to value should relate to the market and represent fair market value of the subject property as of April 1st of the year of appeal.

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Grand Lists and Fair Market Value

- What might presentations to BCA look like from the town or appellants?
  - Explanation of the property briefly
  - Explanation of approaches to value used and the relationship to fair market value
  - Explanation of comparable sales or items of appeal

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Grand Lists and Fair Market Value

- What might presentations to BCA look like from the town or appellants?
  - Explanation of opinion of fair market value of the subject property and all supporting documents.
  - An opinion of level of assessment to be used with evidence to support

The task of the hearing board is to weigh the evidence presented and determine the BCA's opinion of fair market value as of April 1 for the subject property based on information that was presented.

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Grand Lists and Fair Market Value

PVR completes an equalization study annually

1. PVR (Property Valuation & Review) compares appraised (listed/assessed) values to actual market sales (using three years of valid sales).
2. By comparing listed values to sales, PVR determines the level of assessment for the town relative to 100%.
3. This overall level of assessment is known as the Common Level of Appraisal (CLA).

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Grand Lists and Fair Market Value

When rendering a decision, the BCA should consider the following:

- What is the best indication of fair market value for the property as of April 1 based on the information presented?
- Are there homestead and housesite values that would be affected?
- Is the property enrolled in current use?
- Are there any exemptions on the property?
- If information is not provided should ask for the CLA or the final computation sheet.

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What is the Equalization Study?

BCA should find the overall fair market value and indicate (generally) where the change was made.

Example: we find the total value to be $_____ , the reduction will occur in the land (if there is a housesite or current use, BCA also needs to specify if the reduction affects the 2ac site or excluded land)

Example: we find the total value to be $_____ , the reduction will occur in the dwelling, or specific building or outbuildings.

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Fair Market Value

- Once the board finds fair market value that value needs to be equalized.
- What is equalizing and why is it done.

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The Equalization Study / CLA

PVR completes an equalization study annually

1. PVR (Property Valuation & Review) compares appraised (listed/assessed) values to actual market sales (using three years of valid sales).
2. By comparing listed values to sales, PVR determines the level of assessment for the town relative to 100%.
3. This overall level of assessment is known as the Common Level of Appraisal (CLA).

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The Equalization Study / CLA

1. The CLA is used to equalize the education property values and tax rates on a town-to-town basis, as well as determine when a reappraisal is warranted.
2. The CLA is certified by PVR to the towns each year by January 1st and can be found on the final computation sheet. (which we will show later in this webinar)

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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.

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The Equalization Study/CLA

- A CLA under 100 means the town is generally undervaluing property

and

- A CLA over 100 means the town is generally overvaluing the property.

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The Equalization Study/CLA

- Appeal Boards (beyond lister/assessor) should apply the CLA to FMV if no other credible evidence is submitted to the contrary.
- This is called "equalizing" the fair market value to treat the taxpayer equitable compared to others in the town.

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The Equalization Study/CLA

- What might be other creditable evidence of a ratio that may be more appropriate then the CLA?
  - Town or Appellant successfully demonstrates the level of assessment for the category is more appropriate than the overall CLA.

(cont..)

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The Equalization Study/CLA

- Town or Appellant successfully demonstrates the level of appraisal for the category is more appropriate than the level of assessment for the neighborhood.
- Town or Appellant successfully demonstrates the level of assessment for a lesser time period than the three-year study is more appropriate.

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Where is the CLA?

State of Vermont - Division of Property Valuation and Review

Certified Final Computation Sheet

December 21, 2020 10:15 AM
*** Equalization Study - 2020 ***

Ferrisburgh — School District ID: 76 — 1228

	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 Incl. St. Exemption
1	R1	496	128,034,500	0	128,034,500	127,944,500	99.70	128,419,759	128,329,488	14.32	257,933
2	R2	386	145,265,200	530,100	144,735,100	144,645,100	99.21	146,413,975	146,323,258	10.36	385,973
3	MHU	12	365,600	0	365,600	365,600	96.87	377,413	377,413	0.00	30,467
4	MHL	52	7,207,000	105,200	7,101,800	7,071,800	96.87	7,435,727	7,404,758	27.40	142,779
5	S1	12	1,092,700	0	1,092,700	1,092,700	96.87	1,128,007	1,128,007	0.00	91,058
6	S2	3	512,500	22,500	490,000	490,000	96.87	528,174	528,174	0.00	200,333
7	COMM	60	35,355,800	2,300	35,353,500	36,034,500	96.22	36,744,645	37,452,398	46.65	600,868
8	CMA	2	677,400	0	677,400	677,400	96.22	704,012	704,012	0.00	338,700
9	IND	0	0	0	0	0	0.00	0	0	0.00	
10	UE	13	20,232,200	0	20,232,200	28,884,000	99.99	20,234,223	28,886,889	0.00	2,221,846
11	UO	2	753,800	0	753,800	753,800	96.22	783,413	783,413	0.00	376,900
12	FRM	50	23,607,100	3,395,500	20,211,600	20,211,600	96.22	24,377,174	24,377,174	0.00	950,244
13	OTH	282	160,704,700	39,100	160,665,600	160,665,600	96.87	165,895,746	165,895,746	25.82	573,071
14	WOOD	0	0	0	0	0	0.00	0	0	0.00	
15	MISC	183	16,081,700	1,075,400	15,006,300	15,006,300	96.22	16,663,641	16,663,641	17.84	119,420
		1,553	539,890,200	5,170,100	534,720,100	543,842,900		549,705,909	558,854,370		
PERSONAL PROPERTY:	Cable:				524,935	0	100.00	524,935	0		
	Inventory:				Inventory Exempt	0	100.00	Inventory Exempt	0		
	Machinery and Equip:				M and E Exempt	0	[illegible]	M and E Exempt	0		
	TOTAL PERSONAL PROPERTY:				524,935	0		524,935	0		
	GRAND TOTAL (REAL and PERSONAL PROPERTY):				$535,245,035	$543,842,900	98.22	$550,230,844	$558,854,370	16.27	Townwide COD

LISTED VALUE of CONTRACTS AND EXEMPTIONS

Total Approved VEPC:	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:	9,332,800
Total Partial-Statutory Exemptions:	446,400	Total Current Use Reduction Value:	34,664,700
		Total PVR-Applied - MGL/EGL:	0

Certified to County: $550,231,000
Certified to State: $550,231,000

CLA is found here

https://tax.vermont.gov/municipalities/reports/equalization-study

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Where is the CLA?

When might you use the category ratio?

State of Vermont - Division of Property Valuation and Review

Certified Final Computation Sheet

21, 2020 10:15 AM

*** Equalization Study - 2020 ***

Ferrisburgh

School District ID: 76 — 1228

	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 Incl. St. Exemption
1	R1	496	128,034,500	0	128,034,500	127,944,500	99.70	128,419,759	128,329,488	14.32	257,953
2	R2	386	145,265,200	530,100	144,735,100	144,645,100	99.71	146,413,975	146,323,258	10.36	385,973
3	MHU	12	365,600	0	365,600	365,600	96.87	377,413	377,413	0.00	30,467
4	MHL	52	7,207,000	105,200	7,101,800	7,071,800	96.87	7,435,727	7,404,758	27.40	142,779
5	S1	12	1,092,700	0	1,092,700	1,092,700	96.87	1,128,007	1,128,007	0.00	91,058
6	S2	3	512,500	22,500	490,000	490,000	96.87	528,174	528,174	0.00	200,333
7	COMM	60	35,355,800	2,300	35,353,500	36,034,500	96.22	36,744,645	37,452,398	46.65	600,868
8	CMA	2	677,400	0	677,400	677,400	96.22	704,012	704,012	0.00	338,700
9	IND	0	0	0	0	0	0.00	0	0	0.00	
10	UE	13	20,232,200	0	20,232,200	28,884,000	99.99	20,234,223	28,886,889	0.00	2,221,846
11	UO	2	753,800	0	753,800	753,800	96.22	783,413	783,413	0.00	376,900
12	FRM	50	23,607,100	3,395,500	20,211,600	20,211,600	96.22	24,377,174	24,377,174	0.00	950,244
13	OTH	282	160,704,700	39,100	160,665,600	160,665,600	96.87	165,895,746	165,895,746	25.82	573,071
14	WOOD	0	0	0	0	0	0.00	0	0	0.00	
15	MISC	183	16,081,700	1,075,400	15,006,300	15,006,300	96.22	16,663,641	16,663,641	17.84	119,420
		1,553	539,890,200	5,170,100	534,720,100	543,842,900		549,705,909	558,854,370		
PERSONAL PROPERTY:	Cable:				524,935	0	100.00	524,935	0		
	Inventory:				Inventory Exempt	0	100.00	Inventory Exempt	0		
	Machinery and Equip:				M and E Exempt	0	100.00	M and E Exempt	0		
	TOTAL PERSONAL PROPERTY:				524,935	0		524,935	0		
GRAND TOTAL (REAL and PERSONAL PROPERTY):					$535,245,035	$543,842,900	98.22	$550,230,844	$558,854,370	16.27	Townwide COD

LISTED VALUE of CONTRACTS AND EXEMPTIONS

		Total Grandfathered Exemptions:	0
Total Approved VEPC:	0	Total Municipal Contracts (Owner Pays Ed. Tax):	0
Total Approved TIF District:	0	Total Special Exemptions Value:	9,332,800
Total Non-Approved Exemptions:	0	Total Current Use Reduction Value:	34,664,700
Total Partial-Statutory Exemptions:	446,400	Total PVR-Applied - MGL/EGL:	0
Total Veterans Exemptions EGL:	70,000	Total PVR-Applied - EGL:	0
Total Veterans Exemptions MGL:	280,000	Total PVR-Applied - MGL:	0

Certified to County: $550,231,000

Certified to State: $550,231,000

https://tax.vermont.gov/municipalities/reports/equalization-study

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The Equalization Study/CLA

- 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 the CLA is 95%= $100,000 X .95 = $95,000

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The Equalization Study/CLA

- Example fair market value was found to be $100,000 and CLA is 105= $100,000 X 100%** = $100,000

Why?:

- **Court case have confirmed that a CLA above 100% should be applied as 100%.

*Brown vs Windsor 139 VT 129

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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.

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CLA Quiz

2. A CLA of 130% means:

a) The properties on average are significantly undervalued.

b) The properties on average are significantly overvalued.

c) PVR would require a reappraisal of the properties.

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Where is the CLA Quiz?

When might you want to use this ratio?

State of Vermont - Division of Property Valuation and Review

Certified Final Computation Sheet

*** Equalization Study - 2019 ***

Middletown Springs 11393

School District ID: 125

	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 Incl. St. Exemption
1	R1	140	24,232,800	0	24,232,800	24,232,800	101.05	23,981,000	23,981,000	5.10	173,091
2	R2	203	52,063,600	864,800	51,198,800	51,168,800	[illegible]	52,671,811	52,641,449	9.30	274,118
3	MHU	9	121,600	0	121,600	121,600	99.42	122,309	122,309	0.00	13,511
4	MHL	16	1,945,600	4,000	1,941,600	1,911,600	99.42	1,956,888	1,926,713	0.00	122,044
5	S1	5	209,000	0	209,000	209,000	99.42	210,219	210,219	0.00	41,800
6	S2	29	3,044,000	143,200	2,900,800	2,900,800	99.42	3,059,533	3,059,533	0.00	130,524
7	COMM	6	615,200	0	615,200	615,200	99.42	618,789	618,789	0.00	102,533
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	1,658,200	0	1,658,200	1,658,200	100.00	1,658,200	1,658,200	0.00	1,658,200
11	UO	0	0	0	0	0	0.00	0	0	0.00	
12	FRM	7	2,561,700	148,600	2,413,100	2,413,100	99.42	2,574,335	2,574,335	0.00	490,043
13	OTH	0	0	0	0	0	0.00	0	0	0.00	
14	WOOD	7	183,600	87,900	95,700	95,700	99.42	183,305	183,305	0.00	88,357
15	MISC	54	2,095,100	161,900	1,933,200	1,933,200	99.42	2,104,807	2,104,807		58,991
		477	88,730,400	1,410,400	87,320,000	87,260,000		89,141,196	89,080,660		
PERSONAL PROPERTY:	Cable:				564,123	0	100.00	564,123	0		
	Inventory:				Inventory Exempt	0	100.00	Inventory Exempt	0		
	Machinery and Equip:				M and E Exempt	0	100.00	M and E Exempt	0		
	TOTAL PERSONAL PROPERTY:				564,123	0		564,123	0		
	GRAND TOTAL (REAL and PERSONAL PROPERTY):				$87,884,123	$87,260,000	99.54	$89,705,319	$89,080,660	$.21	Townwide COD

LISTED VALUE of CONTRACTS AND EXEMPTIONS

		Total Grandfathered Exemptions:	256,600
Total Approved VEPC:	0	Total Municipal Contracts (Owner Pays Ed. Tax):	0
Total Approved TIF District:	0	Total Special Exemption: Value:	0
Total Non-Approved Exemptions:	0	Total Current Use Reduction Value:	6,784,500
Total Partial-Statutory Exemption:	0	Total PVR-Applied - MGL/EGL:	0
Total Veteran: Exemption: EGL:	20,000	Total PVR-Applied - EGL:	0
Total Veteran: Exemption: MGL:	80,000	Total PVR-Applied - MGL:	0

Certified to County: $89,705,000

Certified to State: $89,705,000

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Summary

- PVR conducts an equalization study to equalize listed values, 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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