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Fair Market Value and Equalization

- Why are these important in the appeals process?
- 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.



• 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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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.

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

 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.

- Cost Approach (used most widely for town-wide reappraisal – town's typically use a <u>market</u> <u>adjusted cost</u> 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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	05/03/2021		Page 1			
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7 * 70 / T 1 1 7 7 1	From Table: MAIN Section	Rec			ord # 666	
Fair Market Value	Property ID: 41100224000	0668 Last Inspected: 09/08/2008 Co			st Update: 03/19/2021	
	Owner(s): ALOSI TERI		Sale Price:			Validity: No Data
			Sale Date: 01		age: 321	
	Address: 3 MAIN STREET City/St/Zip: SAMPLEVILLE 050	00	Bldg Type: Si		uelky: 3.00 /	
	Location: 3 MAIN ST	00	Style: 25		r Bullt: 1960	
	Description:DWL & LAND		#Rms: 4			Ktchns: 1
	Tax Map #: 10-02-24.000		# 1/2 Bath: 0		Baths: 1	
	Item	Description	Percent	Quantity	Unit Cost	Total
	BASE COST	Di	400.00		65.70	
	Exterior Wall #1: ADJUSTMENTS	Plywood / Ht=8	100.00		65.70	
	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: Energy Adjustment	None Average	50.00		-1.58	
	Foundation Adjustment	SF <18"			-1.94	
	ADJUSTED BASE COST	010		2,104.00	64.58	135,865
	ADDITIONAL FEATURES					
Sample	Flutures (beyond allowance			-3.00	1,100.00	-3,300
	Roughins (beyond allowance Features #1:	ATT-SHED		-1.00 168.00	450.00 8.00	-450 1,344
		odDck/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
a. a.e	Local multiplier		1.25			
Coat Chaat	Current multiplier REPLACEMENT COST NEW		1.00			178.899
Cost Sheet	Condition	Fair	Percent			1/0,033
000000000	Physical depreciation		50.00			-89,449
	Functional depreciation					
	Economic depreciation					** ***
	LAND PRICES	Size	Nbhd Mult	Grade	Depth/Rate	89,400
	SI Bldg Lot	Size 2.00	Nond Mult 1.00	Grade 1.00	Depthrkate	65,000
	Total	2.00	1.00	1.00		65,000
	SITE IMPROVEMENTS	Haite/Hatd Quantity	Quality			
		y/y <typical< td=""><td>Below Avg</td><td></td><td></td><td>3,000</td></typical<>	Below Avg			3,000
		y/y ≺Typical	Below Avg			6,000 9,000
	Total OUTBUILDING S	Hsite/Hstd % Good	Size	Rate.	Extras	9,000
	DGS 15	y/y 50	288	18.80	Dtras	5.400
	Total		200			5,400
	Miscellaneous adjustment					50,000
	TOTAL PROPERTY VALUE					218,800
	NOTES			HOUSESITE		218,800
	01 D 001111711 D010		н	OMESTEAD	VALUE: .	218,800
	OLD COUNTY ROAD:					MicroSolve CAMA 201

- 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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		Subject		(example	le form for use in appeal				1
	Item	Property	Comparable #1		Comparable #2		Comparable #3		1
	Address Proximity to								
	Subject								
	Sale Price / Sal	e Date	\$		\$		\$		
	Date of Sale	Description	Description	Plus/Minus	Description	Plus/Minus	Description	Plus/Minus	
	& Time Adjustment			\$		\$		\$	
Market Approach - A sales	Acreage			\$		\$		\$	
grid may be used to	Location / Neighborhood			\$		\$		\$	
demonstrate fair market	Site / View			\$		\$		\$	
value using comparable	House Style / Appeal			\$		\$		\$	
sales and adjusting them	Constr. Quality			\$		\$		\$	
to the subject property for	Age			\$		\$		\$	
an indication of value.	Condition Living Area			\$		\$		\$	
an mulcation of value.	Sq Ft	Total/Bdrms/Bath	Total/Bdrms/Bath	\$	Total/Bdrms/Bath	\$	Total/Bdrms/Bath	\$	
	Count			\$, ,	\$		\$	
	Gross Living Basement &			\$		\$		\$	
	Bemt Fin Rooms Functional			\$		\$		\$	
	Functional Utility Garage /			\$		\$		\$	
	Carport Other			\$		\$		\$	
	Outbuildings Porches &			\$		\$		\$	
	etc. Energy Eff.			\$		\$		\$	
	Items Other (Include			\$		\$		\$	
	Řemodel) Net			\$		\$		\$	
	Adjustment Indicate Vi	alue of Subject	\$		\$		\$		

- 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.

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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appellants?

Grand Lists and Fair Market Value



- 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 <u>weigh the evidence</u> 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.

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?
- o Is the property enrolled in current use?
- $\circ\,$ Are there any exemptions on the property?
- If information is not provided should ask for the CLA or the final computation sheet.

What is the Equalization Study?

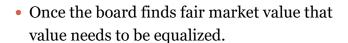
BCA should find the overall fair market value and indicate (generally) where the change was made.

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



• What is equalizing and why is it done.

PVR completes an equalization study annually

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The Equalization Study / CLA

- 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)

- 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.

- 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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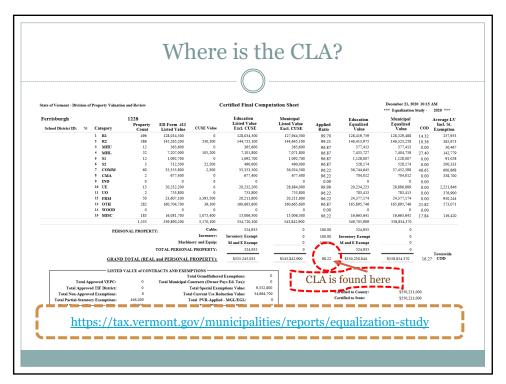
The Equalization Study/CLA

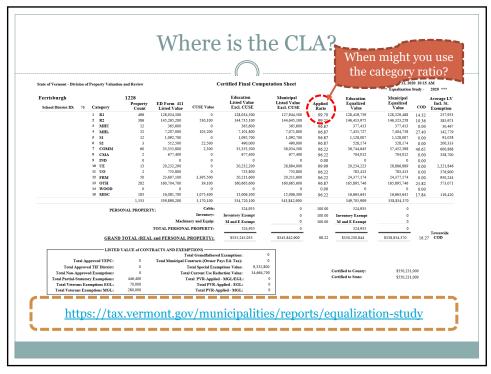
- What might be other creditable evidence of a ratio that may be more appropriate then the CLA?
 - Town or Appellant successfully demonstrates the level of assessment for the category is more appropriate than the overall CLA.

(cont..)

- 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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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

Example fair market value was found to be\$100,000 and CLA is 105= \$100,000 X100%** = \$100,000

Why?:

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

*Brown vs Windsor 139 VT 129

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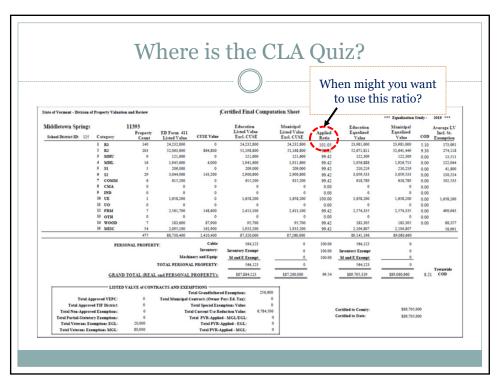
CLA Quiz

- 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.

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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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.