

## GUIDELINES FOR ASSESSORS: STRATIFYING MUNICIPAL ASSESSMENT BASE

The Bureau of Equalization met with a number of assessors representing larger assessment jurisdictions to discuss information they felt the Department of Revenue (DOR) should consider during the annual process of estimating the equalized value. For the past few years DOR has encouraged assessors to review the statistical indicators from the Assessment/Sales Ratio Analysis (also referred to as the Assessor Equity Report) which has been sent out around the beginning of March along with the listing of sales used in that initial analysis. Statewide there has been relatively little feedback regarding the level of assessment that the sales analysis indicates, except for some suggestions as to which sales should or should not have been included as ‘useable’ sales.

The concern has often been over the indicated ratio of the commercial class and sometimes over the residential class as well. Where the assessor does not feel that sales reflect what has happened over the past year for the overall class, DOR has suggested that the assessor should stratify that class on the local roll. They should then analyze the sales activity consistent with their stratified base to confirm whether there has been a different level of economic activity. For this analysis to be useful in DOR’s work cycle, it would have to have been completed and available for discussion during early May.

Until now, the nature of that analysis has been left open ended. DOR has worked with the majority of communities who have timely raised individual concerns. As more assessors want to provide their detailed analysis for DOR to consider, it becomes more important that we communicate with the assessment community facets of the sales analysis systems’ expectations; including the timing and the nature of the analysis we will need. In many instances, the indicated ratio is not the primary basis for DOR’s economics; there simply may not be sufficient sales for the Department to use that as a sole indicator.

When might the assessor provide detailed relevant analysis? Typically when there is a class of property that has a reasonably high percentage of value in a single or group of properties that might change in value at a different rate than the more common properties. Where we most often see this variance is in a community with lakefront properties, which have been changing in value at a much different rate than the off-lake properties. In fact, the grouping (or stratifying) of these properties is done as a part of the assessor’s normal analysis in a revaluation. Where there is a lot of sales activity in one of these stratum, and that activity ‘drives’ a conclusion of the activity of the community as a whole, it may result in inaccurate estimates of the entire class of properties.

If there is a statistically adequate number of sales, the most appropriate analysis would be to calculate the ratio for each of the stratum and apply each stratum’s sales ratio to the amount of value in the assessment base from the prior year’s roll.

Care needs to be taken in the commercial class as well. Often there is a very large commercial entity which overshadows the remaining value in the class (regional shopping centers, landfill sites, large resorts, etc.). In many of those instances, DOR has touched base with the local assessor to check on the assessor’s knowledge of the local activity as it relates to that unique property. We recognize that the sales activity in the community from the Assessor Equity Report must be tempered with market related information regarding the unique property.

## **SALES SYSTEM EXPECTATIONS:**

- All auto-rejected RETRs should be analyzed. When a community elects to provide detailed feedback, it is critical that every RETR be reviewed critically. The auto-reject process is part of loading the scanned RETR's to DOR's Sales Analysis System (SAS) database. These are reviewed by criteria built into the software. While DOR has designed the system to catch the obvious rejects, there may be few good sales, which the assessor has knowledge of, which should be added back as useable sales.
- All 'full bundle of rights/arms length/no change after assessment date' sales should be included in the analysis with the assessed value from the beginning of the calendar year.
- Any potentially useable sale, which the assessor feels is not appropriate, should be analyzed critically and adequate support for the decision to reject it should be made available. See the Wisconsin Property Assessment Manual (WPAM), chapter 14, for that analysis.
- Every effort should be made to include the calendar year conveyance date sales recorded in January (and February, if significant) of the succeeding year.
- The sales used in the assessor's analysis should match the useable sales provided to DOR.
- While ratios by stratum may differ widely, the number of sales in the higher value stratum is typically inadequate to statistically project value. A number of larger jurisdictions provide a breakdown of their base based on value of the parcel (2002 figures). The City of Brookfield, for example, has 24% of its commercial value in property valued under \$2 million, while 30% of its property is valued over \$10 million. The City of Madison has about 30% valued under \$2 million while about 17 % is over \$10 million. The City of New Berlin has 54% under \$2million and no parcels over \$10 million. Not one of these communities have sufficient sales in the stratum of parcels over \$10 million. (If this is the case, see numbers II or III below.)

## **TIMING:**

- The time frames for calendar 2003 SAS for the 2004 economics were provided to assessors during the November Assessors Schools. The Assessor Equity Report and sales listing was sent out to assessors on March 23, 2004. This reflected all sales with assessments which had been returned to DOR March 16 (potentially sales recorded through December). Time was of the essence for the assessor to review the sales listing to see that it is accurate.
- The January recordings and corrections to the initial Assessor Equity list were submitted to DOR by April 9. This listing will reflected the final sales listing used by Equalization in estimating the economics from 2003 to 2004.
- Assessor's completed analyses must be provided between mid April and mid May. This timing allows for the latter part of May for any follow up discussion after our review of the material provided. Equalization completes the economics portion of its analysis by the end of May.

## **NATURE OF THE ANALYSIS:**

### **I. Adequate Sales: Stratifying the Base and the Sales**

- Use this where there is significant difference in the ratios of each stratum and the amount of value in the base is significantly different.
- There is rarely an adequate number of sales in each stratum if too many strata are used. We would suggest no more than a few strata be created. An example would be residential on-water vs. off water analysis.
- We have seen where general neighborhood areas have been used effectively as strata.
- Include:
  1. An electronic file of the sales in each stratum and its aggregate ratio, along with an identifier from DOR's SAS system
  2. A listing of all sales originally presumed useable which the assessor has rejected. . Every effort should be made to include the sales in the analysis. This should also include the rationale used in rejecting the sales
  3. The total assessed value by each stratum and its percent to total of the assessed value of that class.

## **II. Inadequate sales: Stratifying the Base and Providing Economic Descriptors**

- Use this where there are a reasonably defined number of strata in which economic conditions change in a different fashion over time, and inadequate sales occur, the assessor's detailed analysis of each stratum will be critical.
- Simply presuming DOR should accept a recent revaluation within the community is not adequate. DOR has found that there is too significant a difference in background and experience among assessors, and a significant difference in how effectively an assessor's office can function given variances in municipal funding. The purpose of equalization is to standardize the impact of those variances, and while assessor's work is considered, equity can not be achieved statewide by allowing municipal self-identified equalized values.
- Detail developed during a revaluation can be presented in a summary analysis, which DOR will review in considering the current changes to specific stratum identified by the assessor.
- There should typically be very few strata (3 are suggested), unless there is a significant amount of data supporting the significant differences in economic changes to each stratum.
- Include:
  1. an electronic file of the sales in each stratum and its aggregate ratio, along with an identifier from DOR's SAS system
  2. A detailed explanation for the rate of change opinion on each stratum which had inadequate sales activity.
  3. Copies of the reference material supporting the analysis and conclusions.
  4. The total assessed value by each stratum and its percent to total of the assessed value of that class.

## **III. Inadequate Sales: Unique Small Class or Individual Properties**

- Use this where there are 1 to 2 single large value unique properties. Examples include regional shopping centers, landfill sites, small community/large commercial operations (Lands End), large resorts, nationwide single tenant home offices (Sentry Insurance), etc.
- These properties often represent a high percentage of the class.
- These properties often are impacted by economic factors different from the smaller properties in the community (and can drive the economics in the community).
- These properties often have tax representatives who maintain yearly contact with the assessor.
- Annual communication with the Equalization District office regarding the changes in status for these properties is encouraged. The greater the involvement of the assessor in tracking the unique property, the greater the confidence DOR will have with the feedback from the assessor.
- Include:
  1. An electronic file of the sales in each stratum and its aggregate ratio, along with an identifier from DOR's SAS system
  2. A detailed explanation for the rate of change opinion on the large valued, unique properties which had inadequate sales activity. The current and prior year assessed values should also be provided.
  3. Copies of the reference material supporting the analysis and conclusions.
  4. The total assessed value by each stratum and its percent to total of the assessed value of that class.

### **ADDITIONAL COMMENTS/REFERENCES:**

- The annual use of the assessment/sales analysis draws on the prior calendar year sales activity to project the annual inflation/economic changes to the property class. DOR's cyclical field review process augments the sales activity with appraisals for a statistical valid aggregate ratio analysis.
- Additional information is available in the Wisconsin Property Assessment Manual (WPAM), chapter 14, and in "Property Appraisal and Assessment Administration", by the IAAO, 1990, chapter 20.

If you have questions or would like to request sample stratification documents, contact the [Equalization Bureau District Office](#) in your area.