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ASSESSING ASSESSMENTS

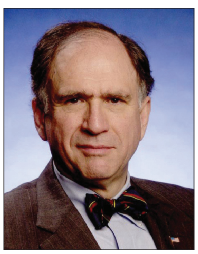
Revaluation Delays A Continuing Source of Concern In Connecticut

The Longer Towns Wait To Re-Assess, The More Problems They Get

By Elliott B. Pollack
SPECIAL TO THE COMMERCIAL RECORD

For many years, Connecticut required municipal assessors to revalue real property at least once every ten years (the decennial revaluation), a rule that worked reasonably well in the decades immediately following World War II.

But by the last quarter of the twentieth century, gyrations in real estate values, local economies waxing and waning, financial bubbles and the excesses of the business cycle began to cast doubt on the wisdom of the decennial approach.



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Take for example, the mythical property we will refer to as Blackacre in Yukon, Connecticut. Its market value was determined by the Yukon assessor on October 1, 1980. That value changed over the ensuing decade so that the 1980 assessment had little or no relationship to market value seven or eight years later. When the market declines, as it does in the Blackacre scenario, property owners are understandably unhappy about paying taxes on an assessment that bears little relationship to reality.

A more significant difficulty created by revaluation delays is linked to the complexities of the overall real estate market. That is to say, different classes of property experience value changes at different rates over time. Therefore, while single-family residences in Yukon might be increasing in value, the value of office buildings might be static or declining; sales prices of condominiums might be collapsing due to over supply; and the value of retail space might not move very much because of supply/demand factors.

The longer an assessor waits to perform a revaluation, the more shocking (to taxpayers) the adjustments necessary to account for value swings. And, as a result, the more likely taxpayers are to flood the assessment system with appeals.

Thus, as more time elapsed after the mythical Oct. 1, 1980 revaluation, the equalization of values among various classes of property was being lost. Instead, properties whose values were not appreciating very much, if at all, begin to bear a greater burden of the Yukon municipal budget than did properties whose value had appreciated significantly, because both were receiving tax bills based on the 1980 revaluation assessment – not on current values. This situation in Yukon would not only be unfair, but might even raise constitutional issues.

A recent article by Larry Clark in the January 2010 issue of Fair & Equitable, the monthly publication of the International Association of Assessing Officers (IAAO), makes many of these same points.

Referring to policy pronouncements from the IAAO, Clark notes that property values are constantly changing in a dynamic economy.

"Values in one area," he observes, may increase, "whereas those in another may decrease or stabilize." The problem thus created is that "property taxes then shift to areas with increasing wealth as measured by property value."

To achieve fairness, Clark asserts, "only a system requiring current market value acknowledges … changes in local economies and the distribution of property related wealth."

Clark refers to the dramatic nature of recent property market changes. For example, a revaluation performed as of Oct. 1, 2006 would have established values bearing little relationship to the market for most classes of property barely two years later. The longer an assessor waits to perform a revaluation, the more shocking (to taxpayers) the adjustments necessary to account for value swings. And, as a result, the more likely taxpayers are to flood the assessment system with appeals, thereby creating major staffing problems for the assessor's office and political problems for elected representatives.

Reflecting on 2010 conditions, Clark said "when values are declining, taxpayer confidence is increased by local government tracking those values, and (implementing tax) rate changes in a manner consistent with current economic circumstances." Rather than benefiting property owners, "infrequent revaluations" he correctly observes, "heighten taxpayer anxiety in the year values are updated . . . because the change is virtually always inconsistent with the year-to-year change in the market."

When Connecticut ultimately bought into the wisdom of more frequent revaluations by dropping the ten-year cycle to four years, pressure from various sources a few years later convinced the General Assembly to bump the cycle up to five years – still an improvement over the decennial approach but far too extended to address the concerns noted by Clark.

When local elected officials attempt to assuage property owner angst by casting about for ways to postpone a scheduled revaluation or to soft pedal the value changes reflected by the market, they are merely offering to postpone and accentuate the inevitable resulting discomfort. ■

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