COUNCILMAN
SAMUEL D. ZURIER
55 DORRANCE STREET, SUITE 400
PROVIDENCE, RI 02903
EMAIL: sdz@om-rilaw.com
Office: (401) 861-2900 ext 105

COMMITTEES

Finance
Vice Chair

Ordinance

Education Sub-Committee
Chairman

January 31, 2014

City of Providence, Rhode Island

Providence City Council
25 Dorrance Street
Providence, RI 02903

Dear Fellow City Council Members:

Please find attached the final report prepared and approved by the Special Commission to Study Tax Revaluations. I would appreciate your reviewing it and considering it for possible approval.

Thank you for your assistance.

Sincerely,

Sam DZ

Enclosure

IN CITY COUNCIL
FEB 06 2014
READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.
CLERK

Final Report of Special Commission to Study Property Tax Revaluation

Submitted to the Providence City Council
February 6th, 2014

Tale of Contents

Members of the Commission

Samuel Zurier, Chair
Councilman – Ward Two

Luis Aponte, Vice Chair
Councilman – Ward Ten

Michele Caprio
CEO, Greater Providence Board of Realtors

Elaine Mondillo
Tax Assessor, Town of Lincoln

Elyse Pare
Deputy Tax Assessor, City of Providence

Michael Patch
Providence Apartment Association

Peder Schaefer
Associate Director, RI League of Cities and Towns

(Note: All Commission members participated as individuals, and do not speak on behalf of the groups to which they belong.)

Background

Swings in Recent Revaluations

In accordance with Rhode Island law, the City of Providence conducts a full physical revaluation of all properties within the city limits once every nine years, and conducts statistical updates of those assessments at three year intervals in between. These revaluations are conducted to account for fluctuations in the real estate market and other factors that can cause the value of properties to change during the years between revaluations. However, dramatic shifts in the real estate market over the last decade caused property values in Providence to fluctuate rapidly, often resulting in sudden and unaffordable increases in tax burdens.

The last three revaluations in Providence have brought dramatic swings in property values, affecting different neighborhoods in different ways. While it is not possible here to explain completely the reasons for these fluctuations, they were influenced by some general trends in the real estate market over these years.

During the years leading up to the 2007 revaluation, Providence experienced a real estate boom, particularly in the City's southern and western neighborhoods. As a result of the revaluation, homeowners in those neighborhoods saw their overall tax bill increase, while homeowners in other neighborhoods saw declines. We later learned that much of this boom was in fact a speculative bubble puffed up by easy credit, mortgage-backed securities and derivatives.

After the 2007 revaluation, the bubble burst when the nation sank into a "great recession." Providence suffered a foreclosure crisis, largely in the same neighborhoods where values had skyrocketed during 2001-07. Property values fell significantly, with the average owner-occupied residential property's assessment decreasing by about 30% in the 2010 revaluation, according to data provided by the Office of the Tax Assessor. Notably, assessment decreases were not uniform, but rather affected different neighborhoods to widely varying degrees. While values dropped throughout Providence, neighborhoods such as Olneyville and Elmwood saw owner-occupied homes lose nearly 50% of their 2007 assessed values, whereas in College Hill, values dropped 8-10% from 2007 to 2010.

These shifts in home values caused equally sudden and arguably more disproportionate changes in tax burdens for Providence's property taxpayers. Since the total taxable value of properties had decreased, to raise the same amount of tax revenue, the City had to increase the tax rate accordingly. However, this meant that home owners whose property values did not decrease as much as the city average actually experienced a tax increase, despite their lower assessed values. For example, in the Wayland neighborhood, the average home owner-occupied property's assessment dropped nearly 13% in 2010, but its tax bill increased by more than 16%.

The 2010 budget brought another dramatic shift in the tax burden unrelated to the revaluation itself. In order to replace a major decline in State aid to local communities, the City eliminated the exemption previously available for non-owner occupied residential properties, a change which raised property tax bills for these owners by 50% before other adjustments were considered. In January, 2011, the City Council restored 15% of this exemption, but the change in these property owners' tax bills was still dramatic.

As the real estate market continued to correct itself in the wake of the housing bubble, a similar situation arose again during the 2013 revaluation. According to analysis conducted by the Internal Auditor, the average assessed value for an owner-occupied single family home fell by nearly $20,000, 8.5% of its value, but saw its tax bill increase by $404, nearly an 11% increase. As in 2010, the effects of the 2013 revaluation were not uniform throughout Providence. While the average owner-occupied single family home saw its taxes increase by just $36 in the Charles neighborhood and just $65 in the Manton neighborhood, similar properties had their taxes increase more than $1,000 in the Blackstone neighborhood and more than $1,600 in College Hill on average. These impacts were not limited to Providence's East Side, however, with the average owner-occupied single family homes Lower South Providence and Federal Hill experiencing 18% and 20% property tax increase respectively as a result of the revaluation.

While analysis at the neighborhood level certainly paints a stark picture, in order to properly understand the full impact of the last three revaluations, one must study how individual taxpayers and properties have been affected. For example, an examination of changes in property assessments from 2006 to 2013 saw the appraisals on many properties increase dramatically in one revaluation only to lose all or most of that value in the next. A table showing the changes in assessment and tax bill for five sample properties is included below. It should be noted that all tax bills assume owner-occupancy.

Source: Office of the Tax Assessor, 2013

	2006 (rate=30.23)		2013 (rate=19.25 effective)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	$267,500	$4,043	$279,400	$5,378
			4%	33%
146 Warrington	$155,000	$2,343	$122,200	$2,352
			-21%	0.4%
47 Vinton	$186,500	$2,819	$153,900	$2,963
			-17%	5%
45 Radcliffe	$154,200	$2,331	$129,300	$2,489
			-16%	7%
365 Union Ave	$170,000	$2,570	$123,700	$2,381
			-27%	-7%

For example, prior to the 2007 revaluation, 47 Vinton Street, a three-family property in the Federal Hill neighborhood, was assessed at $186,500. After the revaluation, its assessment increased 55.3%% to $289,700. Then, three years later, it was reappraised at only $187,000, just $500 more than its value two reappraisals earlier. Today, that same property is valued at only $153,900, 17.5% less than its value in 2006. Yet, assuming owner-occupancy, the owner of 47 Vinton Avenue pays 5% more in taxes today than it did in 2006.

Another property, 18 Savoy Street, a single family home on Providence's East Side (technically in the Blackstone neighborhood but very near the border with the Mount Hope neighborhood) similarly experienced large swings in assessments. Since 2006, the property has been valued as high as $314,500 and as low as $267,500. However, despite its current assessment being only 4% greater today than it was eight years ago, the tax bill for 18 Savoy Street is $1,300 greater today, a 33% increase.

These significant and sudden increases in property tax burdens put taxpayers in an untenable situation, leaving them unable to predict their future taxes and allowing no time to adjust or plan for the often serious impact an assessment revaluation can have on property tax burdens. In response, the Providence City Council passed a resolution recognizing that, "[a] review of the state law, and the entire revaluation process, is necessary in order to mitigate dramatic property tax increases from one revaluation cycle to the next, and provide greater stability for homeowners and residents," and established the Special Commission to Study Property Tax Revaluation for that purpose.

Issues Regarding Timing, Notice, and Transparency

In addition to concerns regarding shifts between revaluations, many issues arose during the 2013 revaluation that raised questions about the timing and transparency of the revaluation process. While some of these issues were addressed internally by the Tax Assessor before the Commission was convened, they are recorded in this report to provide an accurate description of the concerns that arose during the revaluation, to ensure that reforms to date are adopted and retained, and to provide an outline for necessary additional reforms beyond those already adopted. In order to address these issues, the Commission received a general briefing on the revaluation process that is reproduced in Exhibit 4.

The 2013 revaluation raised certain specific concerns. As with previous revaluations, the City of Providence's Tax Assessor worked in conjunction with a private appraisal company to conduct the 2013 statistical update. However, the City engaged a different vendor, Vision Government Solutions, than had been used in the past. The transition to the new company was not without issue. While the vendor had predicted that it would have a new set of valuations by March 1, it did not complete this work until mid-April. The Commission determined that many of the problems that arose during the most recent revaluation could have been avoided through greater oversight and stricter adherence to the calendar proscribed in the revaluation company's contract.

For example, due to delays and unexpected obstacles, revaluation data was not received by members of the City Council until it was too late in the cycle to conduct a full review prior to setting the budget. The delays did more than just disrupt the Council's work; while the original calendar for the statistical update allocated more than a month for informal meetings with taxpayers, less than two weeks were actually available for those meetings. Furthermore, the Commission heard testimony that some residents felt that they did not have sufficient time to learn about the revaluation and offer feedback to the revaluation company and the Assessor's Office before the budget was passed.

Additionally, the Commission heard testimony from the Deputy Tax Assessor and others in the Office of the Tax Assessor calling for greater public outreach and transparency before and during a revaluation. It was suggested many times that greater communication with taxpayers would reduce both confusion and the number of assessment appeals, especially during a full physical revaluation. The Commission heard testimony that providing taxpayers with more information about how assessments are determined and how the revaluation is conducted would reduce constituent complaints and improved the process on the whole.

Customer service practices within the Assessor's Office were another area identified for improvement. Council members present at Commission meetings reported that many of their constituents were unable to reach the Assessor's Office by phone at times. Moreover, a lack of cross-training within the office meant that some staff members were unable to answer taxpayers' questions and could not address their concerns, breeding further frustration among residents and damaging their relationship with their local government.

Revaluation Standards

Balancing Competing Concerns

During the course of its work, the Special Commission to Study Property Tax Revaluation researched both the history of revaluations in Rhode Island and examined how municipalities in other states around the nation conduct their property tax reassessments.

When reviewing different revaluation standards and methods, the Commission sought a solution that would both ensure that property assessments reflect market values and also mitigate the impact of large shifts in market values on individual taxpayers. Unfortunately, these two concerns are often at odds with one another. As evidenced by the experience during the 2007, 2010 and 2013 revaluations, large swings in market values may result in a significant increase in tax burdens when shifts in property values do not occur uniformly throughout a city or town.

RI's Revaluation History and Current System

In 1979, the State of Rhode Island passed the Property Tax and Fiscal Disclosure Act, which required cities and towns to reappraise all properties once every ten years. Prior to that legislation, there had been no revaluation requirement, leaving many assessments out of date and inaccurate. The ten year revaluation requirement was meant to address that concern by ensuring periodic revaluation of properties without over burdening tax assessors.

By 1997, the General Assembly determined that more frequent updates of property values were necessary and amended the process further. Since then, the State of Rhode Island has required cities and towns to follow a nine-year property tax assessment revaluation cycle in which tax assessors conduct a full physical reappraisal once every nine years, with statistical updates occurring three years and six years later.

It should also be noted that changes to the revaluation schedule have been proposed many times since the current system was implemented. Though none of these proposals have received much support in the General Assembly, in 2008, the Rhode Island Public Expenditure Council (RIPEC) issued a report on three bills altering the current revaluation cycle. Of the proposed measures, RIPEC endorsed a plan that would have shortened the time in between physical revaluations from nine to eight years, but would reduce the number of statistical updates from two at three year intervals to just one, four years after the physical revaluation is completed. RIPEC explained its endorsement saying, "This legislation would reduce the cost of two statistical updates in a six year period, but would still provide for a timely comprehensive revaluation."

While the Commission discussed the idea of altering the timing of the revaluation cycle, ultimately, it was agreed that such solutions did not directly impact the twin concerns of accurately reflecting the changes in the real estate market and mitigating the effects of such changes on taxpayers. The point was also raised that, since it is nearly impossible to predict when or how the housing market will fluctuate, no matter the schedule for revaluation, taxpayers could experience dramatic changes in their tax burdens. The Commission considered extending the length of time between reavaluations, something the Rhode Island Public Expenditure Council proposed in 2008 (proposing a 4 year/8 year cycle). Though it was argued that providing more time in between revaluations might avoid "bubbles" that artificially cause prices to soar and then plummet and "pendulum swings" in the real estate market (i.e. values changing drastically in one direction then returning), the Commission felt that such a proposal did not guarantee the avoidance of such swings and, by waiting longer to update assessments, could actually increase the impact of a revaluation on individual tax burdens. Also, the Commission recognized that a change in the years of the revaluation cycle would create transition issues for some communities, and add a layer of complexity to any enabling legislation.

Revaluation Systems Around the U.S.

While many municipalities around that nation utilize systems for revaluation similar to what is done in Rhode Island, this is certainly not the only method in use today. Revaluation options vary widely throughout the U.S. and demonstrate the many different ways that governments can choose to balance the competing concerns of reflecting market values and minimizing the impacts on taxpayers. A full discussion of alternatives in other states appears in Exhibit 3.

In Massachusetts, municipalities have made reflecting current market conditions their primary concern. To achieve this, the Commonwealth of Massachusetts requires cities and towns to conduct physical revaluations once every three years (as opposed to nine in Rhode Island). Additionally, many municipalities in the Bay State conduct statistical updates annually.

By functionally condensing Rhode Island's nine-year process into a three-year process, assessors in Massachusetts ensure that property values reflect the most recent shifts in the real estate market. However, this method offers little predictability for taxpayers since their properties will be subject to reappraisal in between every tax bill.

On the other end of the spectrum, many states have adopted what is usually known as the "Acquisition Model" for reassessment. Popularized by California's Proposition 13 in 1978, in an acquisition model state, the taxable value of a property is artificially held down by placing a cap on how much an assessment on an owner-occupied home can increase each year after it is purchased. In California, assessments increase with the change in the Consumer Price Index, but are not allowed to increase by more than 2% annually. Assessments only "pop up" to the actual market value when a property is sold or after major construction has taken place.

This method provides taxpayers who keep the same residence for many years with an incredible amount of predictability and shields them almost entirely from the effects of drastic swings in the housing market. However, this system divorces property assessments from the real estate market, creating horizontal inequities and distorting incentives for home owners. For example, under such a scheme, two completely identical homes may face very different tax burdens if one was purchased more recently than the other (see table below). Moreover, the longer property owners live in one home, the more pressure they may feel to stay because moving into a new home would mean facing a higher property assessment and greater tax burden. Additionally, properties that are not subject to the assessment growth limitations will see their tax burdens increase much more rapidly under an acquisition system than would otherwise.

Source: Lincoln Land Institute, 2008

Year Sold	1978 Assessment	1990 Mkt. Value	1990 Assessment	2005 Mkt. Value	2005 Assessment	2005 Tax
1978	$100,000	$275,903	$126,824	$761,226	$170,689	$1,707
1990	$100,000	$275,903	$275,903	$761,226	$371,329	$3,713
2005	$100,000	$275,903	$126,824	$761,226	$761,226	$7,612

Among the many options in between these two extremes are assessment phase-in programs. The basic idea behind a phase-in model is that, instead of immediately using the new assessment to determine property taxes when a revaluation is completed, assessors apply the change in assessments gradually over the course of the years following a revaluation. For example, if a home owner's property assessment increased $30,000 and there are three years until the next revaluation, the taxable value of the property would increase $10,000 a year, reaching the full assessed value in time for the next reappraisal

This type of method is used Connecticut, Maryland, and Montana, though there are significant differences between specifics and details of those states' systems, the basic concept of gradually phasing-in changes to assessed values is maintained. Maryland and Montana require equal phase-ins over three and six years, respectively. Meanwhile, Connecticut does not require assessments be phased in, but does offer it as an option that cities and towns can elect to do following a revaluation. Municipalities in Connecticut also have five years in between revaluations, but new assessed values must be fully phased in by the fourth year after a revaluation.

While the Commission studied a number of other models and practices for property tax revaluation, many of the methods studied did not directly affect the concerns that led to the creation of the Commission. For example, in places such as Delaware that have much longer stretches in between revaluations, a limit is placed on how much the overall property tax levy may increase in a revaluation year. Such a measure was designed to prevent municipalities from using an increase in overall assessments to increase taxes without the usual associated tax rate increase. However, Rhode Island's municipalities are already subject to truth in taxation regulations and, in 2006, the General Assembly passed the so-called Paiva-Weed Law, which set a 4% levy increase limit every year, so much of this approach is not applicable to the current situation in Providence.

Similarly, some states have avoided the assessment issue entirely by instead focusing on increasing predictability through maintaining the proportions within the tax base. In Colorado, the residential portion of the statewide property tax base is permanently held at 45%, meaning that if the market for residential properties increases faster than for other properties, cities and towns will either have to reduce the residential tax rate or increase the non-residential tax rate to maintain the proportion. Such a measure may increase predictability, but does not address the immediate concerns brought about by fluctuations stemming from a revaluation.

Commission's Recommendations

Executive Summary of Recommendations Adopted by the Special Commission to Study Property Tax Revaluation (January, 8, 2014)

I. Revaluation Standards

The Commission recommends the City advocate for passage of state legislation that will allow local communities the option of phasing in, over a period of three years, the changes resulting from a revaluation. The legislation will be prepared by the City Solicitor with care to ensure it is technically valid. The legislation will contain the following elements:

a. Each community will have the option of electing to "phase in" through the passage of an ordinance stating the decision to "phase in." The "default" position will be a continuation of the status quo absent the passage of such an ordinance.

b. The ordinance electing a "phase in" (or reverting from a "phase in") will be separate from the budget ordinance. Once passed, the city or town will forward its election promptly to the State Department of Revenue.

c. Once a community enacts an ordinance opting for a "phase in," it will continue to "phase in" for future revaluations until it enacts an ordinance reverting to the "no phase in" status quo.

d. The "phase in" option will apply to both statistical and full revaluations.

e. The deadline for electing this option is thirty-one (31) days after the valuation date (i.e. 31 days after December 31 of the baseline valuation year.)

f. The "phase in" will apply to all revalued property, both those increasing in value and those decreasing in value.

g. The "phase in" option will first become available for revaluations conducted in calendar year 2016 for property values as of December 31, 2015.

h. A city or town electing to "phase in" will develop procedures that include the process for adjusting property values for improvements and other changes that occur between revaluations.

i. The following examples illustrate how the "phase in" would apply for two sample properties, one with a valuation increase and one with a valuation decrease:

Old Assessment	New Assessment	Taxable Value Year 1	Taxable Value Year 2	Taxable Value Year 3
$100,000	$130,000	$110,000	$120,000	$130,000
$240,000	$180,000	$220,000	$200,000	$180,000

II. Internal Procedures

a. Transparency

1. The Assessor will post online record cards for every property. For residential properties, the record card will include all information on which a valuation is based. The card also will indicate the "algorithm" through which the data points on the record card were combined to reach a valuation.

2. For commercial properties, the record card will include all information used to develop a valuation except for proprietary or confidential information, along with general information about how valuations are developed.

b. Customer Service

1. The Assessor will develop a communications plan to provide the public with multiple channels of communication about the upcoming revaluation, including the City's website, emails, social media, news releases and advertising, and for enhanced customer service access immediately following the issuance of tax bills to answer questions. The goal should be to eliminate "busy" signals, and to respond to all calls within twenty-four (24) hours.

2. The Assessor and/or the valuation company will schedule community meetings prior to the issuance of tax bills to describe the revaluation process generally without getting into specific property values.

3. Every staff member, regardless of position or duties, must be cross-trained to be able to answer all basic constituent questions.

4. Improve and increase public relations efforts during revaluations. Providing taxpayers with more information about how the revaluation is conducted and when appraisers will be in each neighborhood reduces confusion and appeals, lowering overall workload.

5. The Assessor's Office staff should ensure that appropriate staff attend professional development opportunities about revaluations, including any annual training institutes for tax assessors sponsored by the State. The City should commit adequate resources to the Assessor's Office to support this professional development.

c. Timeline of Revaluation

1. Much of the work involved in a revaluation is conducted in conjunction with private appraisal companies certified by the Department of Revenue, so maintaining an appropriate and efficient schedule for revaluation requires diligence on the parts of both the Assessor's Office staff and the outside firm.

2. Contracts and Requests For Proposals for private appraisal firms should include dates and defined windows for all major aspects of revaluation process, including but not limited to data collection, Assessor review, and City Council review.

3. The Commission will not require specific dates, but the following guidelines provide a framework for a schedule:

a. The revaluation database will be submitted to the Assessor and the Internal Auditor at least three months prior to the expected budget enactment date. Currently, the City Council enacts the budget in early June, pointing towards a delivery date on or around March 1.

b. The revaluation company will be available for informal meetings with taxpayers to discuss their new values for a period of at least four (4) weeks, beginning at one (1) week after impact notices are mailed. The tax bills will describe the informal review process.

4. The appraisal company contract should include strong penalty clauses granting the Tax Assessor the power to withhold payments if the agreed upon schedule is not adhered to.

5. Progress reports should be sent from the appraisal firm to the Tax Assessor on a monthly basis. Reports should include account status, action items, needs of the appraisal firm when in Providence, and the full schedule for revaluation annotated with current status of each task.

Explanation of Recommendations – Revaluation Standards

As stated in the resolution that established the Special Commission to Study Property Tax Revaluation, the Commission's charge was to review "the entire revaluation process ... in order to mitigate dramatic property tax increases from one revaluation cycle to the next, and provide greater stability for homeowners and residents." The members of the Commission pursued this goal while recognizing that any proposal must also take into account the competing concern of reflecting the changes in the real estate market. Ultimately, the Commission determined that the most equitable solution was for municipalities to have the option of either keeping the current revaluation process and cycle or electing to "phase-in" changes in assessments. This policy would require the passage of legislation at the state level permitting cities and towns to choose between the current revaluation system and the proposed assessment phase-in. Exhibit 3 includes an example of how a phase-in could be implemented in an "imaginary city."

Some Commission members raised concerns about the transition to a "phase-in", both for the Assessor's Office and for taxpayers. From contacts with Connecticut communities which do "phase in" revaluations, the Commission majority believes this transition can be handled successfully, provided that sufficient planning and investment takes place. As part of these recommendations, the Commission supports providing the Assessor's Office with sufficient resources to manage this transition smoothly.

The Commission decided not to recommend any changes to the 3-6-9 revaluation cycle established by state law. As mentioned previously, the Commission heard arguments for both increasing and decreasing the time in between revaluations, but felt that adding more time would not necessarily lessen the impacts of revaluation (and could potentially exacerbate the issue) and would further separate assessments from current market values. Similarly, reducing the amount of time in between revaluations was rejected by a majority of the Commission on the grounds that it would increase costs for the City, add new burdens on the Office of the Tax Assessor, and would make revaluations even less predictable for taxpayers.

A key feature in the Commission's recommendation for an assessment phase-in is making it a voluntary local option. The members of the Commission did not want to impose a whole new system for revaluation on cities and towns that do not want to switch from the status quo. However, in certain circumstances, for example in the wake of major shifts in the real estate market, having the option to gradually apply the new assessments to tax bills can give municipalities greater flexibility and would help taxpayers predict and plan for changes in the property tax obligations. To enact the phase-in, the city or town council would have to affirmatively approve an ordinance stating the decision and then inform the State Department of Revenue. Any municipality that took no action would continue with the status quo system for revaluation. If a community opts to phase-in, it will continue to phase-in assessments for revaluations going forward, unless it approves an ordinance reverting to the previous system.

Under the Commission's recommendations, the decision to utilize the new phase-in option would have to be approved by the city or town's legislative body no later than thirty-one days after the completion of the revaluation. This requirement was included in an effort to keep the decision to phase-in or not separate from the negotiations surrounding the budget. By mandating that the vote occur after the revaluation is complete, yet well before final budget decisions are made, the Commission sought to keep the choice to phase-in or not from becoming a "political football" in budget talks. More specifically, the Commission believed that by January 31 of the revaluation years, municipal officials would have some information about the general variance of property values across the city or town, without necessarily knowing the specific changes in values per neighborhood. This would allow the city or town to gauge whether the overall variance was sufficiently wide to support a "phase-in" without necessarily pitting neighborhoods against each other in making the decision.

While it goes beyond the Commission's charge, members noted that there are other sources of tax disparities beyond valuations themselves. More specifically, Providence charges a different tax rate for different classes of property – residential (including separate rates for owner-occupied and nonowner-occupied), commercial, tangible and vehicles. In revaluation years, the City often rebalances the relative weight of these rates; for example, the 2010 revaluation increased the burden for nonresident residential property owners, while the 2013 revaluation froze the commercial rate, shifting a larger burden to the residential market. The Commission urges the City Council and Mayor to consider these issues going forward, even if they are not addressed in this Report.

Explanation of Recommendations: Internal Procedures

The proposed reforms to the internal procedures do not require the enactment of State legislation. They do require additional resources for the Assessor's Office to permit greater public outreach before, during and after the revaluation process takes place. These outreach efforts do not always succeed, as some taxpayers do not focus on the revaluation process until they receive their new valuation in the mail, while other taxpayers wait until they receive their tax bill. With that said, the investment in outreach and proactive contacts will pay off for those taxpayers who take advantage of the opportunity, while reaffirming the City's commitment to transparency for all taxpayers.

Another important reform will be the publication online of the specific revaluation data for each residential property (such as land value, parcel size, number of rooms, etc.), along with the formula (or "algorithm") by which these data points are combined to calculate each residential property's valuation. With this reform, each property owner will have a full explanation of how her own property's valuation was calculated, and how and why it is different from any other property in the City. (Because commercial property valuations involve a number of factors, such as income and cost, that are proprietary, it is not possible to publish this information for commercial properties.)

The Commission recommended a number of steps be taken to ensure that each step in the revaluation process is conducted and completed in a timely manner. As was mentioned earlier, many of the issues that arose during and after Providence's 2013 revaluation happened because the private appraisal company and the Assessor's Office fell behind schedule.

To avoid such issues in the future, the Commission recommended requiring private appraisers to submit regular progress reports to the Tax Assessor and establishing a timeline for all major revaluation-related tasks in the contract with the appraisal firm. While the Commission felt that establishing hard deadlines and specific dates would be both too restrictive and unrealistic, it was determined that a schedule guideline should be codified. Additionally, the contract should include penalty clauses so the Tax Assessor has the ability to withhold or deny payment should the appraisal company fall significantly behind schedule.

Efforts must also be made to improve the level customer service provided by the Assessor's Office staff. Beyond increased outreach efforts mentioned above, enough staff must be on hand to ensure that constituents will not suffer long wait times when coming to the office in person and to ensure that taxpayers do not receive "busy" signals when calling the office. Moreover, staff must be appropriately cross-trained so they are able to answer all of the most frequently asked constituent questions. In order to guarantee this level of service the Commission recommended that the City commit resources to support new professional development opportunities for Assessor's Office staff.

Minority View

NOTE: Commissioner Elaine Mondillo voted "No" on the final Revaluation Standards recommendations. While Commissioner Elyse Pare was not present at the final vote, she expressed her dissenting viewpoint both before and after the vote was taken. This section outlines the reasoning behind their stance.

While the majority of the Commission supported the assessment phase-in recommendation, a minority raised a number of concerns about the phase-in and how it would be implemented. Both dissenting voices preferred a switch to the "Massachusetts model" for revaluation over a switch to an assessment phase-in.

They felt that at its core, the property tax is an *ad valorem* tax, a value based tax, so any revaluation standard, such as the assessment phase-in, that resulted in a taxable value different from the properly appraised market value would be a violation of what they consider a fundamental principle. By its very nature, an assessment phase-in cannot ensure that all properties are taxed based on their full market value every year, though, in the third year of each revaluation cycle, this will be the case.

The dissenting minority also felt that an assessment phase-in program would place extra strain on local tax assessment offices. They were concerned that taxpayers would be confused by the phase-in, leading to more calls, complaints, and appeals, to which assessors must field and respond. Questions were also raised regarding technical concerns about how construction completed in between revaluations would be appraised under a phase-in.

Additionally, the minority held the opinion that the main benefit of the phase-in, slower and more gradual changes in tax burdens, could be achieved more easily through a switch to the "Massachusetts model" for revaluation. As described earlier, in Massachusetts, many municipalities conduct their own statistical updates to assessments every year, while carrying out a full physical revaluation every three years. Through continual, rather than periodic revaluation, taxpayers would experience smaller and more manageable shifts in their property assessments without violating the *ad valorem* principle or risking the added pressures on the assessor's office staff that might come along with switching to a phase-in system.

Maintaining current values is also critical for a number of reasons. More up-to-date property values will provide State and local policymakers with current and accurate data for use to administer the State's local aid programs. For example, as State officials continue to discuss changes to education aid formulas, it is necessary that they have reliable data that accurately reflects the property values in each community.

Appendix

Exhibit 1: Resolution Establishing Commission

Exhibit 2: The Revaluation Experience 2007-2013

Exhibit 3: Comparing Revaluation Options

Exhibit 4: Statistical vs. Full Revaluation

Exhibit 1: City Council Resolution

City of Providence

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RESOLUTION OF THE CITY COUNCIL

No.

Approved

WHEREAS, The City of Providence complies with the property revaluation schedule as set forth in Rhode Island General Laws § 44-5-11.5, which provides for a full revaluation every nine years, and a statistical revaluation every three years; and

WHEREAS, The accurate and timely valuation of property is crucial to ensuring equitable and predictable assessment of local taxes, but the particular standards and procedures for revaluations vary broadly across different jurisdictions; and

WHEREAS, Dramatic shifts in the real estate market during the past ten years have caused greater fluctuations in property valuations throughout the city; and

WHEREAS, The current revaluation schedule and process impacts the various neighborhoods differently, at times resulting in significant and unaffordable tax increases and burdens for property owners in those neighborhoods; and

WHEREAS, A review of the state law, and the entire revaluation process, is necessary in order to mitigate dramatic property tax increases from one revaluation cycle to the next, and provide greater stability for homeowners and residents.

NOW, THEREFORE, BE IT RESOLVED, That the City Council of the City of Providence does hereby establish a Special Commission on Property Revaluation, the purpose of which shall be to study and make recommendations regarding the property revaluation process, and to make recommendations regarding appropriate changes to City procedures and State law.

BE IT FURTHER RESOLVED, That the Special Commission on Property Revaluation shall:

1) consist of not more than nine members, as appointed by the Council President; and
2) shall issue a report of recommendations to the City Council within 120 days of the date appointments are made to the commission.

Exhibit 2:

The Revaluation Experience 2007-2013

Presented to the Special Commission to Study Property Revaluation

October 8th, 2013

2006 to 2013 Assessments & Tax Bills

Sample Properties

		2006		2007		2010		2013	
	Neighbor-hood	Assessment	Tax Bill	Assessment	Tax Bill	Assessment	Tax Bill	Assessment	Tax Bill
CITYWIDE	n/a	---	---	$302,872	$3,459	$211,005	$3,347	$184,545	$3,552
18 Savoy	Blackstone	$267,500	$4,043	$314,500	$3,592	$283,200	$4,302	$279,400	$5,378
146 Warrington	Washington Park	$155,000	$2,343	$228,900	$2,614	$122,900	$1,867	$122,200	$2,352
47 Vinton	Federal Hill	$186,500	$2,819	$289,700	$3,308	$187,000	$2,841	$153,900	$2,963
45 Radcliffe	Elmhurst	$154,200	$2,331	$215,800	$2,464	$131,900	$2,004	$129,300	$2,489
365 Union	Silver Lake	$170,000	$2,570	$246,000	$2,809	$143,000	$2,172	$123,700	$2,381

Effects of 2007 Revaluation

Sample Properties

	2006 (rate=30.23)		2007 (rate=22.84)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	$267,500	$4,043	$314,500	$3,592
			18%	-11%
146 Warrington	$155,000	$2,343	$228,900	$2,614
			48%	12%
47 Vinton	$186,500	$2,819	$289,700	$3,308
			55%	17%
45 Radcliffe	$154,200	$2,331	$215,800	$2,464
			40%	6%
365 Union Ave.	$170,000	$2,570	$246,000	$2,809
			45%	9%

Effects of 2010 Revaluation

Sample Properties

	2009 (rate=24.21)		2010 (rate=30.38)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	$314,500	$3,807	$283,200	$4,302
			-10%	13%
146 Warrington	$228,900	$2,771	$122,900	$1,867
			-46%	-33%
47 Vinton	$289,700	$3,507	$187,000	$2,841
			-35%	-19%
45 Radcliffe	$215,800	$2,612	$131,900	$2,004
			-39%	-23%
365 Union Ave	$246,000	$2,978	$143,000	$2,172
			-42%	-27%

Effects of 2013 Revaluation

Sample Properties

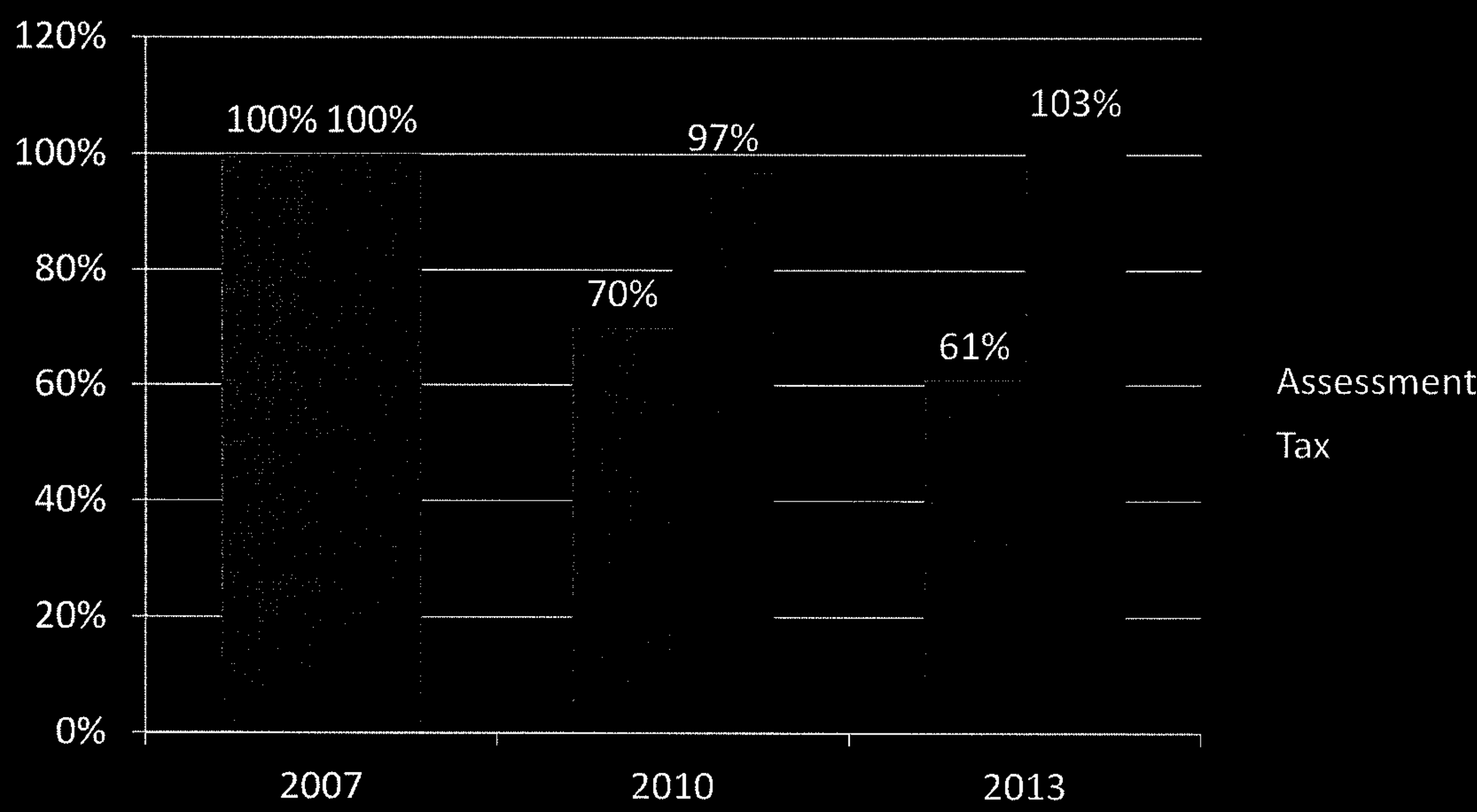
	2012 (rate=31.89)		2013 (rate=19.25 effective)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	$283,200	$4,516	$279,400	$5,378
			-1%	19%
146 Warrington	$122,900	$1,960	$122,200	$2,352
			-1%	20%
47 Vinton	$187,000	$2,982	$153,900	$2,963
			-18%	-1%
45 Radcliffe	$131,900	$2,103	$129,300	$2,489
			-2%	18%
365 Union	$143,000	$2,280	$123,700	$2,381
			-13%	4%

2006 vs. 2013

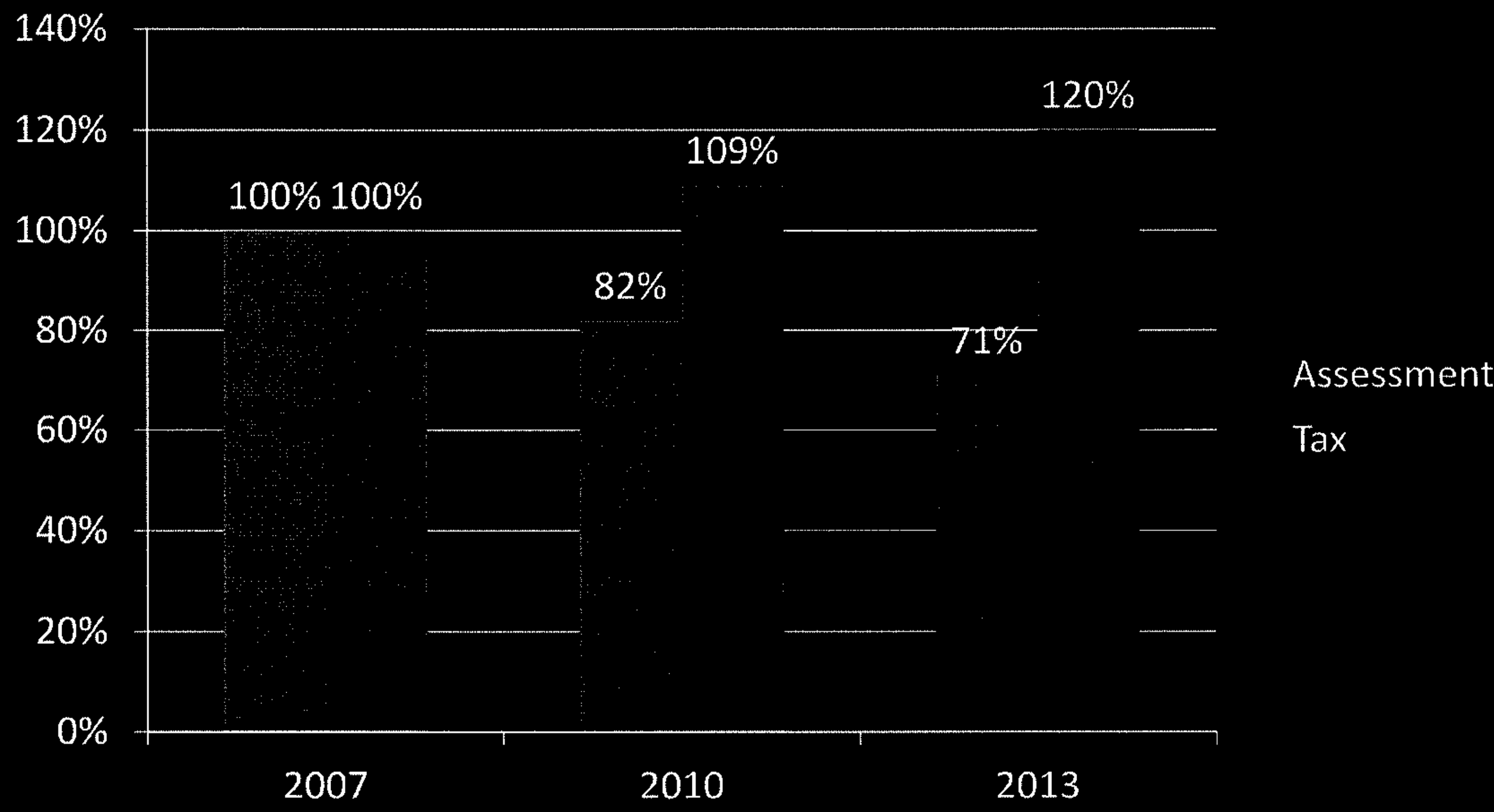
Sample Properties

	2006 (rate=30.23)		2013 (rate=19.25 effective)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	$267,500	$4,043	$279,400	$5,378
			4%	33%
146 Warrington	$155,000	$2,343	$122,200	$2,352
			-21%	0.4%
47 Vinton	$186,500	$2,819	$153,900	$2,963
			-17%	5%
45 Radcliffe	$154,200	$2,331	$129,300	$2,489
			-16%	7%
365 Union Ave	$170,000	$2,570	$123,700	$2,381
			-27%	-7%

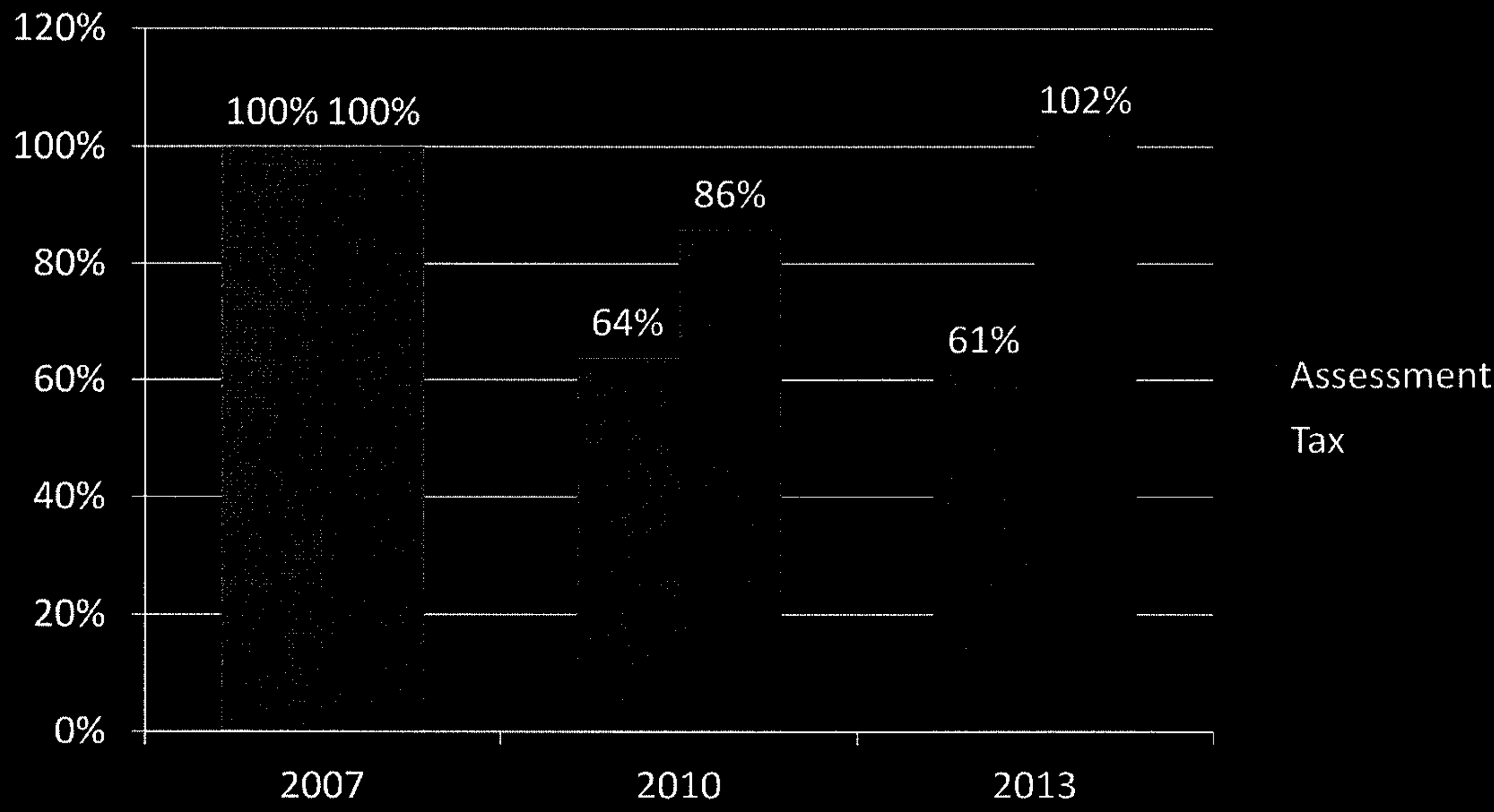
Assessment vs. Tax Bill Change Citywide



Assessment Change vs. Tax Bill Change
Fox Point



Assessment Change vs. Tax Bill Change Elmhurst



Assessment Change vs. Tax Bill Change Washington Park

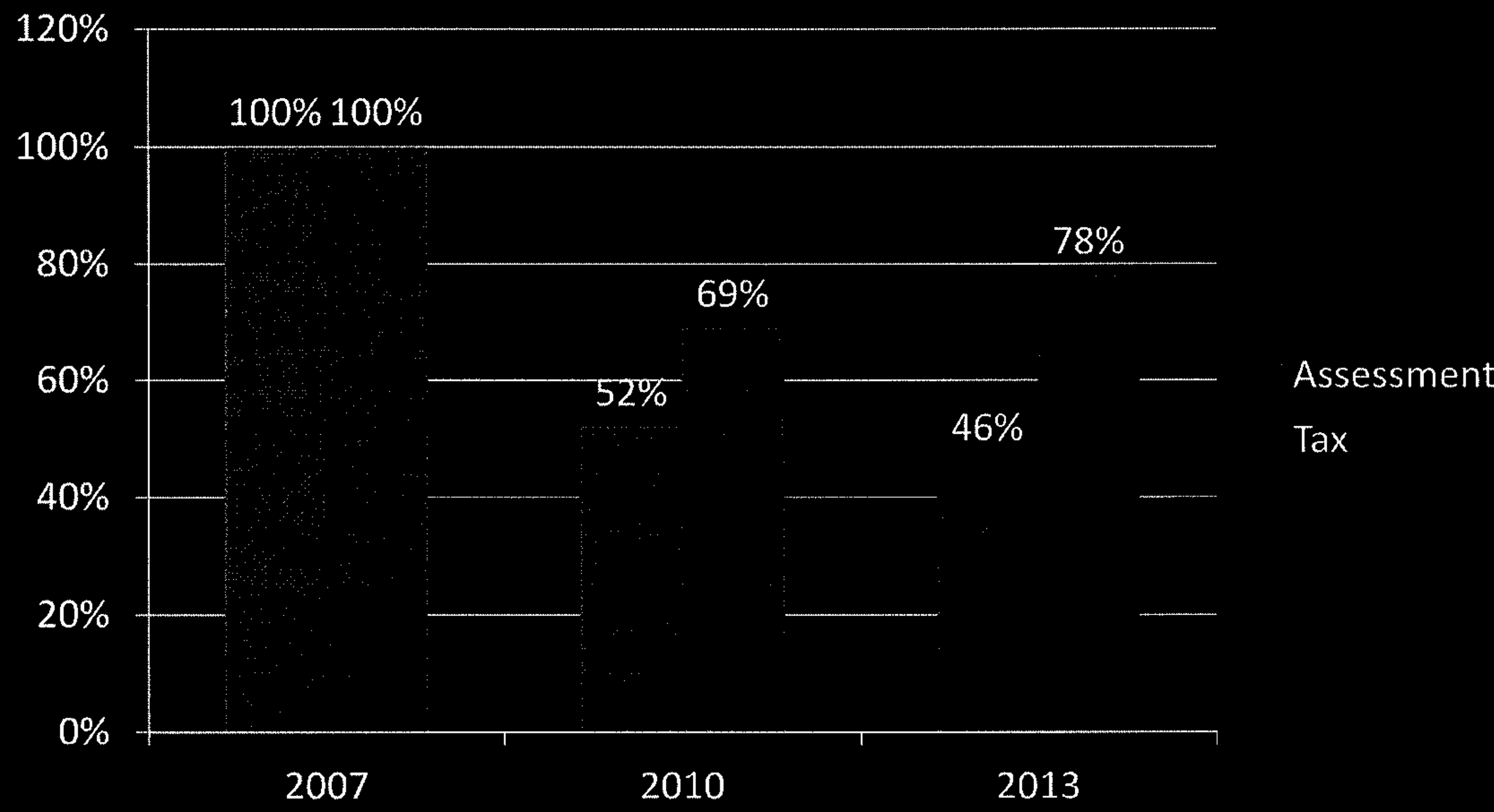


Exhibit 3:

Comparing Revaluation Options

Presented to the Special Commission
to Study Property Revaluation

October 22nd, 2013

Rhode Island's Reval Process

- History
  - (Pre-1979) State had no requirements for revaluation frequency
    - Some municipalities went decades between revaluations.
  - (1979-1997) The Property Tax and Fiscal Disclosure Act
    - Required that each city and town undertake a complete reappraisal of all property at least once every ten years.
  - (1997-present) RIGL 44-5-11.5 & 11.6
    - 9 Year - 3/3/3 Model –
      - One physical followed by two statistical revaluations.
    - Legislative findings:
      - "Infrequent revaluations translate into disparities in property tax burden between types and classes of property within and among cities and towns."
      - "It is the intent of the general assembly to ensure that all taxpayers in Rhode Island are treated equitably. The more frequent the revaluation, the greater the equity within and among jurisdictions."

Rhode Island's Reval Process

- Recent Proposals –
  - In 2008, three bills dealing with RI's revaluation frequency were introduced.
    - 10/5 – 10 year physical, with a statistical after 5 years.
    - 8/4 – 8 year physical, with a statistical after 4 years.
    - 12/4/4 – 12 year physical, with two statistical at 4 year intervals.
  - RIPEC endorsed "8 /4" legislation:
    - "This legislation would reduce the cost of two statistical updates in a six year period, but would still provide for a timely comprehensive revaluation."

Sample Revaluation Frequency by State

State	Reval Frequency	Notes:
Colorado	2 years	Physical reval not required
Connecticut	5 years	Physical reval done at least every 12 years
DC	Annually	Physical reval only of portion of properties
Massachusetts	3 years	Many cities opt to do statistical reval annually
Michigan	Annually	Physical reval not required
New Hampshire	5 years	Only physical reval required
Oregon	Annually	Physical reval not required
Pennsylvania	No requirement	
Washington	4 years	Only physical reval required
Wisconsin	5 years	Only physical reval required

Other Assessment Models

- Four models used around the U.S. that attempt to "smooth over" the issues caused by revaluations.
  - Assessment Phase-Ins
  - "Share of the Pie" Approach
  - Levy Limit in Revaluation Years
  - California/Acquisition Model

Assessment Phase-In Programs

- Basics
  - Difference between old and new assessments applied to tax bill slowly over years between revaluations.
  - Example:

2012 Assessed Value	2013 Assessed Value	2013 Taxable Value	2014 Taxable Value	2015 Taxable Value
$100,000	$130,000	$110,000	$120,000	$130,000
$250,000	$340,000	$280,000	$310,000	$340,000
$150,000	$120,000	$140,000	$130,000	$120,000

Assessment Phase-In Programs

- Maryland –
  - Three years between revaluations.
  - Phased in equally over three years (33% per year).
- Montana –
  - Six years between revaluations.
  - Phased in equally over six years (16.67% per year).
- Connecticut –
  - State gives municipalities phase-in option.
  - Five years between revaluations.
  - Assessments must be phased-in by at least 25% per year.

Imaginary City Revaluation Without Phase-In

Imagine a city with only three properties and needs to raise $20,000 in property tax revenue.

Property	2012 Assessment	2012 Rate	2012 Levy
A	$100,000	$40/thousand	$4,000
B	$250,000	$40/thousand	$10,000
C	$150,000	$40/thousand	$6,000
TOTAL:	$500,000		$20,000

Because the total assessment increased, to hold the levy constant, the rate must decrease.

Property	2013 Assessment	2013 Rate	2013 Levy
A	$130,000	$33.90/thousand	$4,407
B	$340,000	$33.90/thousand	$11,525
C	$120,000	$33.90/thousand	$4,068
TOTAL:	$590,000		$20,000

Imaginary City Revaluation With Phase-In

Property	2012 Assessment	2012 Rate	2012 Levy
A	$100,000	$40/thousand	$4,000
B	$250,000	$40/thousand	$10,000
C	$150,000	$40/thousand	$6,000
TOTAL:	$500,000		$20,000

With the phase-in, the total assessment increased, but not as much as it would have without the phase-in, resulting in a rate lower than the previous year but higher than if there had been no phase-in.

Property	2013 Taxable Value	2013 Rate	2013 Levy
A	$110,000	$37.74/thousand	$4,151
B	$280,000	$37.74/thousand	$10,567
C	$140,000	$37.74/thousand	$5,283
TOTAL:	$530,000		$20,001

Imaginary City Revaluation Phase-In vs. No Phase-In

Replicating the same type of analysis for the next two tax years and continuing to hold the total levy constant, gives the following results:

Tax Bills Without Phase-In

Property	2012	2013	2014	2015
A	$4,000	$4,407	$4,407	$4,407
B	$10,000	$11,525	$11,525	$11,525
C	$6,000	$4,068	$4,068	$4,068

Tax Bills With Phase-In

Property	2012	2013	2014	2015
A	$4,000	$4,151	$4,286	$4,407
B	$10,000	$10,567	$11,071	$11,525
C	$6,000	$5,283	$4,643	$4,068

“Share of the Pie” Approach

- Divide all properties into classes and limit each class’s growth as a proportion of the tax base.
  - Colorado –
    - Residential portion of statewide tax base permanently held at 45%.
  - New York City & Nassau County –
    - Residential portion of tax base taxed at lower percentage of fair market value.
- Doesn’t directly address revaluation, but does increase predictability.

"Share of the Pie" Approach

In New York City, all properties are divided into one of four classes:

Class 1	One- to three-family structures, vacant residential land, and small co-op and condominium apartment buildings
Class 2	Residential rentals, co-ops, and condos
Class 3	Utilities
Class 4	All commercial and manufacturing properties in the city, including major office buildings

Fiscal Year 2008 Values and Taxes

	Class 1	Class 2	Class 3	Class 4
TAX LEVY ($)	$2.1 billion	$5.3 billion	$1.0 billion	$5.9 billion
PORTION OF CITYWIDE TAX LEVY	15%	37%	7%	41%
MARKET VALUE	$427 billion	$176 billion	$20 billion	$174 billion
PORTION OF CITYWIDE MARKET VALUE	54%	22%	2%	22%

Source: City of New York, Department of Finance, Office of Tax Policy

Levy Limit in Revaluation Year

- Some states and municipalities have instituted caps on the amount the property tax levy can be increased in a revaluation year.
- Mainly in places with longer periods in between revaluations.
- Seeks to limit the impact of large swings in assessments.
- RI already has 4% levy cap every year from Paiva-Weed legislation passed in 2007.

Levy Limit in Revaluation Year

Delaware Example:

- Revenue increase in reval year limited to 15%
  - Total countywide property tax revenue cannot exceed 15% of the revenue from the year before the revaluation.
  - Does not include increases caused by new construction.
- Counties choose when to reval
  - No state requirement on frequency.
- "Truth in Taxation"
  - Taxpayers must be informed of both the new rate and the "Roll Back Rate," defined as the rate which would hold revenue constant.
  - Adds hurdles making it harder for legislatures to raise rate above "Roll Back Rate."

The California Model

- Proposition 13 (1978)
  - CA voters approved a measure that ended requirement for periodic revaluations.
  - Taxable values increase with the CPI, but not by more than 2% per year.
  - If market value drops below taxable value, market value is used.
  - Change in ownership triggers reassessment at market value; Assessment “pops up” to the new purchase price.
- Similar laws on the books in:
  - Arkansas, Arizona, Florida, Maryland, Minnesota, New Mexico, Oklahoma, Oregon, and Texas.
  - Illinois offers municipalities the option to cap assessment growth at 7% per year.
  - New York City and Nassau County have limitations of residential assessment growth.

Examples of Horizontal Inequity in The California Model

Over time, identical homes can have very different assessment s, and therefore pay very different tax bills, depending on when they were last sold.

Year Sold	1978 Assessment	1990 Mkt. Value	1990 Assessment	2005 Mkt. Value	2005 Assessment	2005 Tax
1978	$100,000	$275,903	$126,824	$761,226	$170,689	$1,707
1990	$100,000	$275,903	$275,903	$761,226	$371,329	$3,713
2005	$100,000	$275,903	$126,824	$761,226	$761,226	$7,612

Source: Lincoln Land Institute, 2008

Imaginary City Under California Model

- Below we see how using the California Model would affect our imaginary city and its tax base.

Property	2012 Assessment	2013 Market Value	2013 Taxable Value
A	$100,000	$130,000	$101,700
B	$250,000	$340,000	$254,250
C	$150,000	$120,000	$120,000
Total	$500,000	$590,000	$475,950

Imaginary City Under California Model

- Using 2012 as a base year, holding the total levy constant, and assuming no property changed owners.

Tax Bills Without California Model

Property	2013 Assessment	2013 Tax (rate=$30.39)
A	$130,000	$4,407
B	$340,000	$11,525
C	$120,000	$4,068
Total	$590,000	$20,000

Tax Bills With California Model

Property	2013 Taxable Value	2013 Tax (rate=$42.02)
A	$101,700	$4,273
B	$254,250	$10,684
C	$120,000	$5,042
Total	$475,950	$20,000

Recap/Discussion

- RI's Revaluation Process
- Other Models
  - Assessment Phase-Ins
  - "Share of the Pie" Approach
  - Levy Limit in Revaluation Years
  - California/Acquisition Model
- Discussion

Exhibit 4:

Property Revaluation

Statistical vs. Full Revaluation

Introduction

- RIGL 44-5-11.6 requires local City/Town Tax Assessor's to plan and carry out triennial property revaluations. There are two types of revaluations:
  - Statistical Revaluation
  - Full Revaluation
- The rules and regulations of the revaluations include, but are not limited to the following:
  - Sales Analysis
  - Land Valuation
  - Building Valuation
  - Depreciation Schedules

Goals of Revaluation

- Mass appraisal – two primary goals
  - Fair representation – opinion of value as of a certain date
  - Systematic process – similar properties will end up paying similar tax bills

- After developing a model, assessing it against the market sales, and then going out in the field and applying it consistently to the neighborhood, we end up with an opinion of value. We strive to get uniform assessments, resulting in fairness and compatibility amongst similar properties.

Types of Revaluations

- A full “measure & list” of each and every property takes place in a ***Full Revaluation***.
- In a ***Statistical Revaluation*** the data that was previously collected/maintained by the Assessor’s Office is used again in the valuation.
- It is important to note that the valuation side, whether a full or statistical revaluation, is *exactly the same*.

Sales Analysis

- All sales need to be analyzed carefully. The Assessor should obtain as much information as possible about the circumstances of each sale.
- To claim a sale as "valid," the Assessor must verify that it was a true "arms-length" transaction and that the price paid was the true price.
- Once all sales have been verified, the "arms-length" sales can be used in developing models.
- Those models can then be applied to the properties and a Ratio Study is then conducted.

Land Valuation

- Size: Amount of square footage; buildable space
- Current Use: Zoning does determine use, but you may have a property that is legally zoned for commercial but it used as residential. During valuation, we have to take into account its "highest and best use."
- Neighborhood: Each neighborhood requires different adjustments to reflect the market.
- Local adjustments: Within each neighborhood, specific lots may have different attributes. For example, my house could have water views, but my neighbors does not. The local adjustment allow for modifications to the standard neighborhood model.

Building Valuation

- Size: Total square footage
- Use: How many bedrooms? Baths? Retail vs. Office, etc.
- Quality: High-end vs. low-end construction
- Condition: How the property has been maintained/remodeled over the years

Two identical buildings could have been built 20 years ago, but today one is used as a 4 family house, and the other a 3 family with a retail store on the first floor. We have to take into consideration it's current use and value accordingly.

Depreciation Schedules

Depreciation is a table created that represents the loss of value of to a property based on its age and condition. Once a property gets over 20 years old, condition is more important than the age.

For instance, you can have a property that is 200 years old that is immaculate, and a 20 year old building that is in bad shape and not at all maintained. Condition is very critical.

The law is written to say that properties are assessed based on their value in the market. If a property is in better shape, it will sell for more money therefore it does have a higher value. Those are the limitations we have to work with.

Assessor’s Office Procedures

In Non-Revaluation Years

Real Estate Certification

- Each year, the Assessor's Office is responsible for certifying the Tax Roll. Prior to doing so, the following processes need to take place:
    - Appeals
    - Ownership/Exemption Maintenance
    - Building Permits
    - Lot Alterations

Appeals

- Once a tax roll is certified and the tax bills are mailed, owner's have a right to appeal their taxes.
- We typically have a few hundred appeals each year which the Appraisers must review and determine if a change is necessary.
- Revised bills need to be mailed after a change.

Ownership/Exemption Maintenance

- Throughout the year, ownership records need to be updated/maintained.
- There are three Deed Readers who read all of the deeds recorded and then transfer ownership.
- At the time of transfer, a property is reviewed for the exemptions it current has on file. Typically, they are removed upon transfer.
- New owners receive notice asking them to re-apply (owner-occupied tax rate, veterans, elderly, etc.)
- Properties are also reviewed for their possible tax exempt status.

Building Permits

- Once the Appraiser's respond to all of the first appeals, they begin their work on building permits.
- Permit information is received from Inspections and Standards and uploaded into our system.
- The Appraiser's visit and inspect the properties and make adjustments to the value based on the work completed.
- Permit work must be completed by 12/31 of a given year to be included in the upcoming tax year. For example, permits need to be completed by 12/31/13 to be reflected in the 2014 tax roll.

Lot Alterations

- Each year Planning approves various lot alterations. This typically results in the merging of two lots, or just establishing new lot lines for already existing parcels.
- Our office needs to inspect and verify the lots and then re-assess as necessary.
- There are typically 100+ alterations each year.
- The City GIS maps also need to reflect the new lots/dimensions.