Review of the Suitability of Categorical Reappraisal Methodology for the Town of South Hero

Background

The Vermont Department of Property Valuation and Review (PVR) uses property sales data annually to calculate town-specific education tax equalization factors (CLA, or Common Level of Appraisal), and to measure for intra-town appraisal equity (COD, or Coefficient of Dispersion). Based on a 3-year measure of COD, PVR has issued a letter to South Hero stating need for reappraisal.

South Hero has employed Ted Nelson of the Vermont Appraisal Company to conduct property appraisals and has approached him about conducting a reappraisal for the town soon. In this initial conversation Ted explained that a valid, state-accepted option for reappraisal is a methodology called categorical reappraisal, suitable in those instances when a town can identify a category of properties that has changed in market value differently than others. The prime example used is for lakefront properties, as there have been historical sharp changes in valuation in many towns for these properties. Ted explained that a categorical reappraisal would save considerable costs to the Town of South Hero.

The purpose of this review is to look at the valuation changes (CLA and COD) of lakefront versus non-lakefront properties to determine if use of the categorical methodology is a valid option for the Town.

Methodology

Ted assisted the Town Listers (Sue Arguin, Cindy Gokey, and Russ Stratton) in downloading the most recent 3-year equalization study report from the PVR website. This was an appropriate data basis as it was not only that data used by PVR to prompt our reappraisal letter, but also the sales in the study have been vetted by both the State and the Town Listers as being sales valid for market comparison. Sales would have been excluded as not valid for reasons that question a given sale being "arms-length" (family & estate sales, sales to abutters, etc.) This data was cross-matched to the Town's internal property data to identify which were lakefront and which were not. The number of qualified sales for the comparison is 87 in 3 years (34 lakefront, 53 non-lakefront.)

Findings

Best presented graphically, sales ratio (assessed value divided by the sales price) for all sales over time look like the graph below. Note that few sales were less than assessed value and thus have a measure over 100. The ratio is presented this way as it most closely mirrors the State's measure of CLA. Note also that two trend lines have been added, a moving average that highlights the variability of the ratio, and a linear trend line that shows the ratio declining over time. It is safe to predict that next year's Town CLA will be lower that this years of 67.39.

South Hero Property Sales Ratio
(Assessment/Sale) History
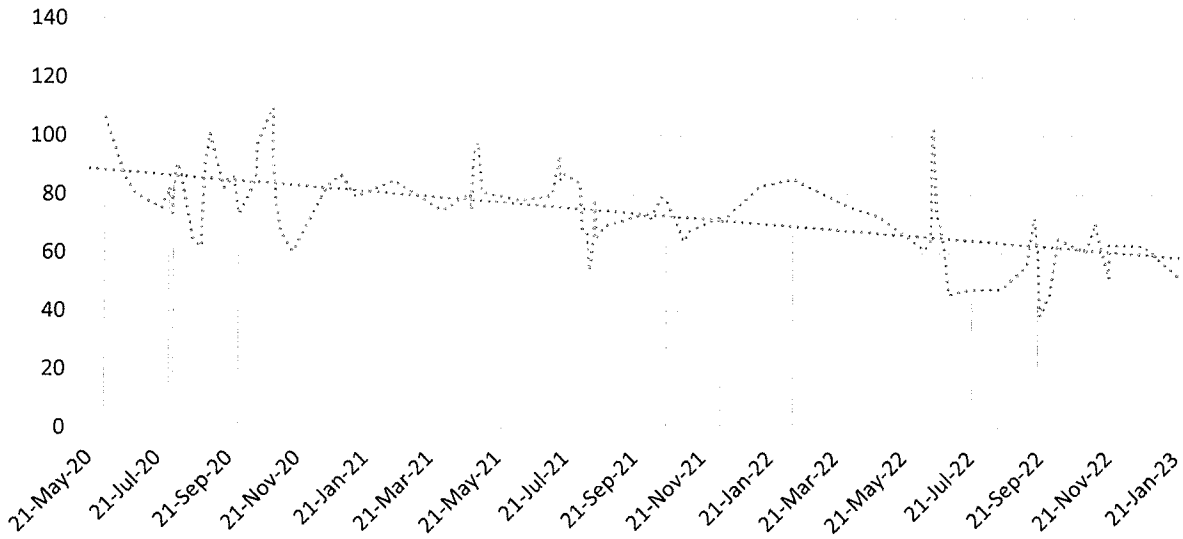
While VPR no longer uses CLA to prompt town reappraisal requirements, it does use COD. South Hero's specific historical sales expressed as COD looks like this:

COD - All
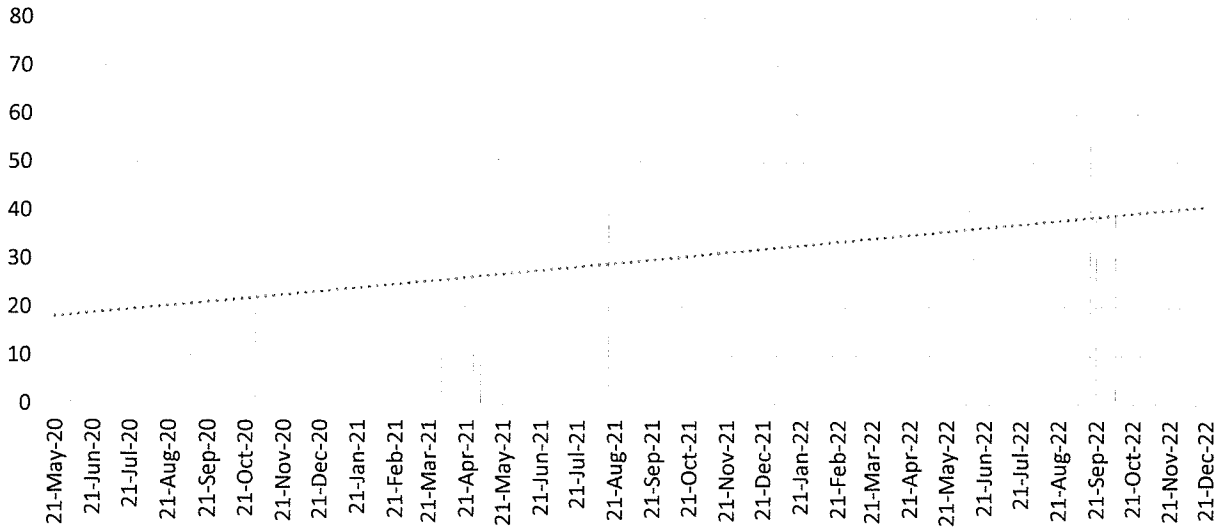
Note that South Hero is well above 20% in recent activity and is trending up. This is a picture of worsening equity where market prices vary considerably from assessed values, hence the need for reappraisal.

To evaluate lakefront versus non-lakefront properties for categorical reappraisal we can compare the same graphs by these groups:
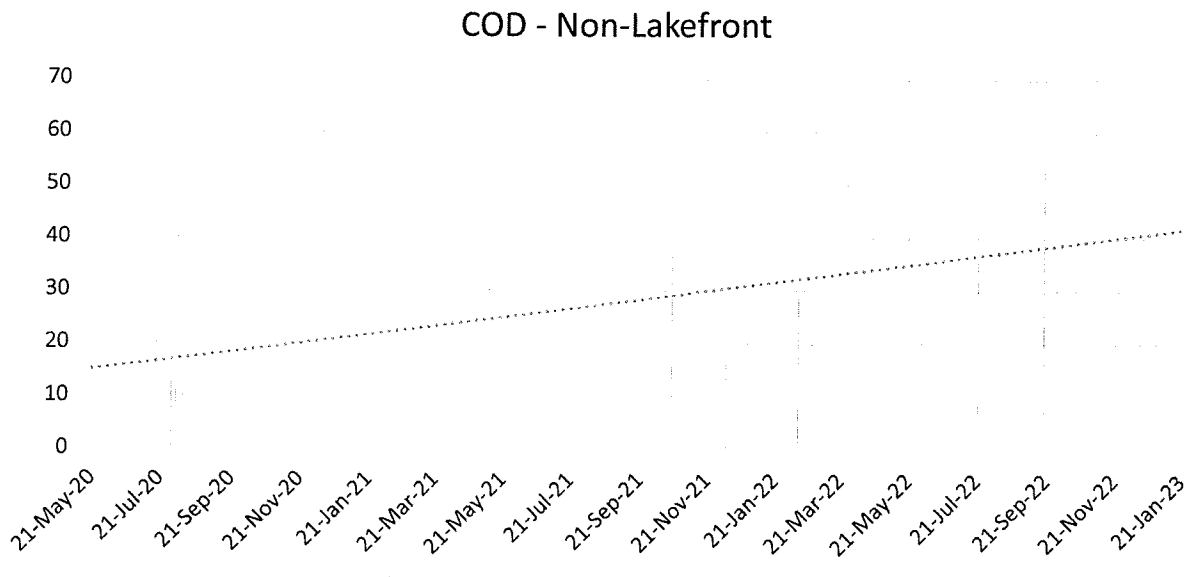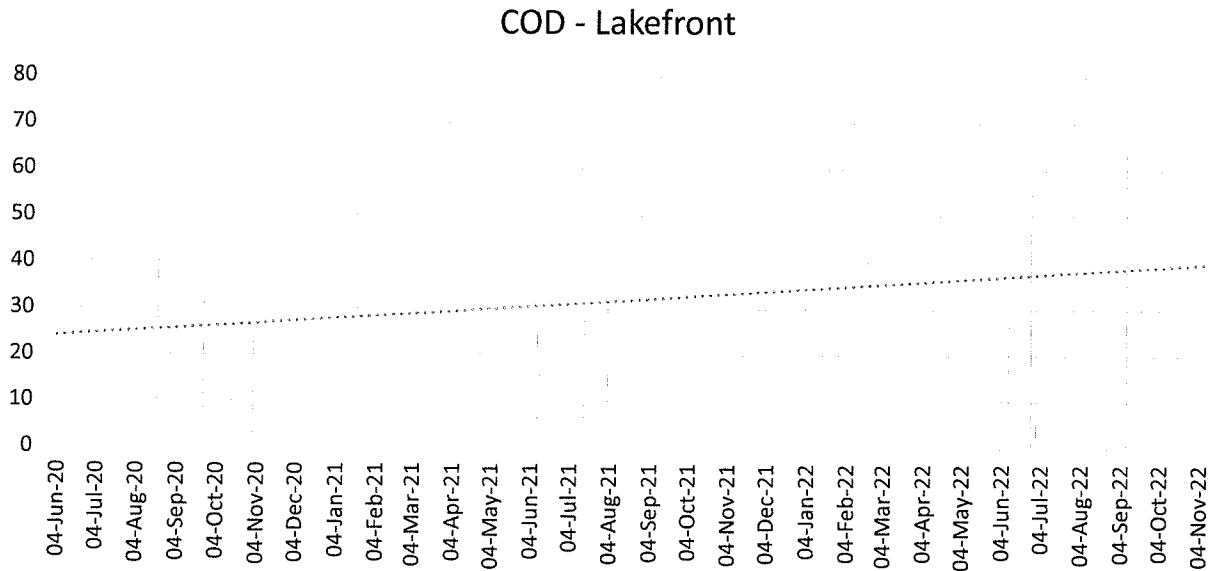
South Hero Property Sales Ratio (Assessment/Sale) History - Lakefront
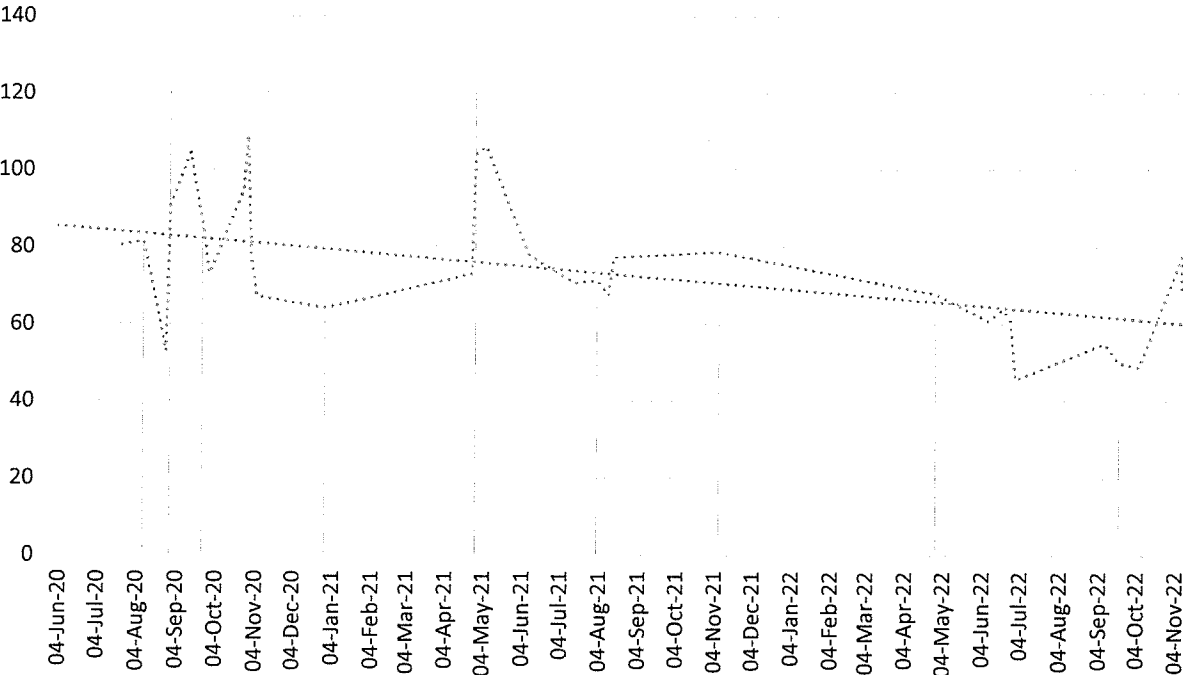
South Hero Property Sales Ratio (Assessment/Sale) History - Non-Lakefront
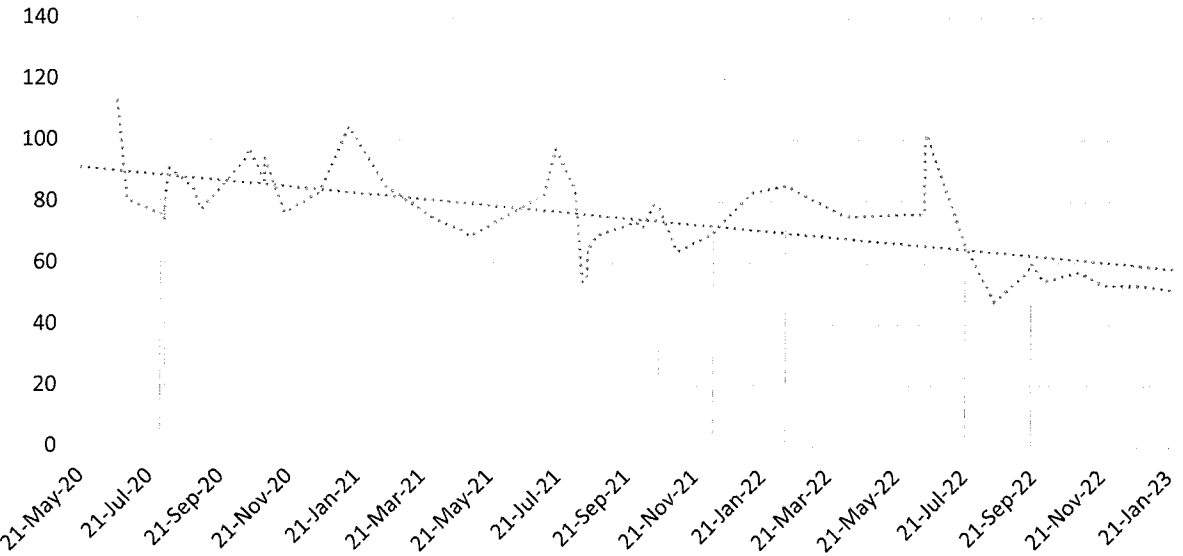
Here we see the same variability and the same trending, with virtually the same 90% to 60% decline in CLA over the entire time period. We can also compare COD:

COD - Lakefront

COD - Non-Lakefront

Again there are striking similarities in the trend lines for COD, suggesting similar aging of property valuations.

Based on this data, we find that it is not appropriate to re-categorize and adjust the valuations of lakefront properties versus the others. The CLA and COD trending above argue for reappraisal of all properties in the Town.

Sue Arguin, Cindy Gokey, and Russ Stratton