

# Equalization Rates

**Curt Schoeberl** (Assessor for the Town of Shawangunk)

- **Introduction**

- The equalization rates is really the mother of all rates, I mean, it's that important."
- Equitable assessments are obviously important, but, you'd be surprised to know how important the equalization rate is. We know the rate is used to apportion school taxes and things like that, but how many other things does the rate affect?

- **The Equalization Rate**

- All the uses of the equalization rate are listed in the following chart:

<b>State Aid</b>	<b>Eligible Forest Land Exemption</b>
<b>Apportionment of Taxes</b>	<b>Assessment of Oil &amp; Gas Units</b>
<b>Debt Limits</b>	<b>Agricultural Value Ceiling Assessments</b>
<b>Tax Limitations</b>	<b>Small Claims Court Purposes</b>
<b>Assessment of Special Franchises</b>	<b>Evidence in Assessment Review Hearing</b>
<b>Railroad Exemptions</b>	<b>Conservation Easement Assessments</b>
<b>Limitations on Fire District Spending</b>	<b>Assessment of Taxable State Land</b>
<b>Creation of Special Districts</b>	<b>Assessment in Lieu of Tax Payments</b>
<b>Rent Control</b>	<b>Maximum Rents for Housing Accommodations</b>
<b>Evidence in Court Proceeding</b>	<b>Apportionment of Volunteer Firefighter Injury Costs</b>
<b>Approved Assessments on SOL</b>	<b>Apportionment of Municipal Coop Agreements</b>
<b>Bail Bond</b>	<b>Allocation of Sales Tax Revenues</b>
<b>Alternative Veteran's Tax Exemption</b>	<b>STAR Limitations</b>

- In addition to the STAR exemption, it is used for a number of other exemptions, including agricultural exemptions.
- It can be used to determine how big one's bail bond should be when a person is arrested. I.e. The court would look at the assessed value of the arrested person's house, and use the equalization rate to make a determination of the value of the house, to ensure that it equaled or exceeded the value of the bond.
- It's important in Small Claims Court, etc., etc.
- I believe that one of the underlying themes for the conference today is "uniqueness." As you go to every area of the state, you find that they are unique in some way.
  - For example, I'm the assessor in the Town of Shawangunk, in Ulster County. On the Town's web site, it proclaims: "Welcome to the Town of Shawangunk, one of the most unique areas of the Eastern United States.
  - We have some towns in the county that have a single parcel that might be 50% or more of the value of the town.
  - The Town of Olive, contains one of New York City's reservoir. And the town has the reservoir assessed for about \$400 to \$500 million dollars higher than the state says it's worth. If you take that large parcel out of the equation and look at the rest of the town, the town's equalization rate was about 30% higher than it should be. The difference in what ORPS said the reservoir was worth and what the locals said it was worth made a major difference in the equalization rate.

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- There is a town with STAR exemptions worth 30% higher than anybody else's STAR exemption in the county. So, not only is their school tax apportionment 30% lower than everybody else's, their STAR exemption is 30% higher. It's a great place to live!
  - In this town there are a lot of people (especially the elderly) who pay no school taxes at all. For many years, they also had the Eligible Funds Veterans' Exemption. For that exemption, one's assessment up to \$5,000 was exempt from town and county taxes. Since the town's equalization rate was 1.2%, most people paid no town taxes, no county taxes, and their school taxes were 30% lower than everybody else's, and their STAR exemption was 30% higher.
  - Unfortunately, the people who enjoyed paying no taxes, enjoyed it at somebody else's expense. All this is due to equalization.
- **Ensuring accurate Equalization Rates**
    - There are many municipalities across the state that are very near their constitutional limits in terms of debt. That constitutional limit is based on equalization rates. So, as assessors, ensuring that our equalization rates are correct may be the single most important thing we do. The equalization rates should not be as high as they can be, but they should be correct.
    - In the past in my county, some towns would work to get a good equalization rate and then when it became obvious that the rate was wrong, ORPS would lower it a lot. It was a roller coaster ride: the town would get a good rate, then a bad rate, then a good rate, etc.
    - A number of assessors and I decided that what we needed to do more than anything else was to advocate for a fair rate. The Ulster County Real Property Tax Director put a group together that she called the "Task Force." The group was made up of 3 senior assessors (I was one), 2 people from ORPS, and 2 people from the County staff.
      - Every year that equalization rates come out, long before they become tentative rates, our group gets a chance to look at them to make sure they make sense.
      - I think this is one of the areas where the ORPS falls down. They will generate numbers and really never go back and ask, "Do they make sense?"

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- I will use the following chart to illustrate the problem:

**Phenomenon?**

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Town	2002 Final	2003 Tentative	% Change
A	25.18%	25.18%	0.00%
B	88.34%	86.68%	1.92%
C	76.75%	74.00%	3.72%
D	2.92%	2.80%	4.29%
E	84.15%	79.00%	6.52%
F	75.56%	70.00%	7.94%
G	1.94%	1.79%	8.38%
H	27.65%	25.00%	10.60%
I	73.63%	66.00%	11.56%
J	40.00%	35.00%	14.29%
K	1.39%	1.20%	15.83%
L	100.00%	86.00%	16.28%
M	100.00%	85.00%	17.65%
N	76.00%	60.00%	26.67%
O	100.00%	75.18%	33.01%

- The chart goes back to 2002 and 2003, before we had formed our committee. Please note that Town A was going to have a shift in their equalization rate of 0%. Meanwhile Town O was going to have a 33% reduction. Wouldn't you question that in one county, there could be that much difference in the equalization rate % change? And, it wasn't due to lakefront. Today, our committee would throw that out.
- Even more significantly, if you look at the yellow areas, these are three towns in the same school district. One is going to get a 3% change, one a 10% change, and one a 17% change in equalization rate. You certainly would not want to live in Town M, as that town saw a 17% change in its equalization rate. Because of the large equalization rate change relative to its peer towns, there was a big shift in the % of the school tax levy paid by Town M. (Note: These towns were contiguous, being in the same school district.)
- Once the task force was put together, we started to look at these kinds of things before the assessors even saw the equalization numbers. And, when the numbers didn't make sense, we reviewed the information that ORPS had, and in some cases we would ask them to look at it again.
- Often in these towns, there weren't enough sales to use, so ORPS would use sales from neighboring towns. However, if you're using sales in Town C and Town M, then how could one equalization rate change 3% and the other 17%? This is just one example of things that didn't make sense to our task force.
- Now, this all goes back to having a strong county assessment organization. Without it, you are all by yourself. With it, you've got strength. You want the best and most accurate equalization number you can get, without stepping on somebody else to try to get to the top of the pile. Because, when you get to the top of the pile, it's a long way to the bottom. And, it's no fun being on the bottom.

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- At the county level, equalization rate changes between towns should normally be close to each other, unless there are some very unique situations. And, in most cases, we found that was not the case.
- So, if I bring any message here today at all: If you think you're seeing equalization rates that don't make sense, talk to your county directors. Get your CRM involved. And, if your CRM doesn't want to be part of the equation, go to their boss, the regional manager. There are many regions of the state, and it's like each region is working as a separate state.
  - For example, I'll talk to you folks in the North County, and I'll talk to people in the western part of the state, or my part of the state, and it's like we don't speak the same language.
  - There are areas of the state that do annual reassessment, and they get equalization rates that are much higher than they should be. There are other areas of the state that don't do annual reassessments, and the CRM and ORPS are constantly trying to get them to do a reassessment; but the towns involved have gotten out of annual reassessment because they were constantly getting damaged when other towns were doing nothing.
- Another Example:
  - There was a town in my county that had an equalization rate of 100% in 2002; and in 2003 the rate fell to 74%. That's quite a change in one year, when other areas of the county didn't fall that much.
  - So a number of us in the county went to ORPS and invited the Executive Director to come down to a town board meeting to explain the situation. We had looked at the numbers on the town's 2002 revaluation and knew the equalization rate should not have been set at 100%
  - Upon coming into town, the Executive Director basically indicated we were just off course.
  - About six months later, the local assessor wrote an article for the newspaper. He said: "In 2001, the town adopted a program of annual assessments starting with the 2002 roll. When the assessments were determined for the 2002 roll, I underestimated assessments about 10-12%. Even though assessments were less than 100% of market value, the state still assumed we were at 100%."
  - The next year when the town's equalization rate fell to 74%, and after all of the dust cleared, ORPS told the town "Your people have to do something."
  - In response the town, didn't look at any individual property. They just adjusted every assessment in town (commercial property, residential, vacant land, etc.) by a factor of 1.34. Magically the state gave them an equalization rate of 100%. This is not the way the process should work.

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- **Summary**

- A lot of the funny business referenced above has stopped because there are committees that are now working with county directors, assessor groups, and people from ORPS. And, without any question, things have gotten a lot better over the past 8-10 years.
  - Some of you may remember back in the 80's, when people used to challenge their equalization rates. ORPS couldn't even handle all the rate complaints in Albany in one day. You would walk into a room, almost the size of this auditorium, and you couldn't find a place to sit down. In those days, everybody challenged their rates. The rates were based on appraisals at that time; they weren't sales-based the way they are now. And, people would file a rate complaint to gain .0001 on the roll. It made no sense. Who is that good?
- Currently, we have a 5% tolerance, which makes sense. So, as long as the level of assessment that we determine as assessors is within 5% of what ORPS believes it should be, that will normally become our final equalization rate. It makes a whole lot more sense.
- The good news is that dealing with ORPS on equalization rates is a lot easier today than it was. However, the market has probably never been as difficult to deal with because the numbers are all over the place. And with the numbers all over, getting closer than 5% is not realistic.
- Another complication is that in today's economic environment, sales may be short sales.
  - But what's the difference between a short sale and a good sale?
  - How do you know a sale is a short sale? The house sold down the block, do you know if the people were three months behind on their mortgage? Were they four months behind? Was foreclosure coming?
- I leave you with the warning: You can't afford to have a bad equalization rate. Too much depends on the equalization rate. For example, your equalization rate is used in calculating CHIPS money for your town and the amount of money your town gets for highway improvements. You need to make sure that you have a fair rate. And you can influence the setting of the rate if you are organized and you have a strong county assessment organization.

- **Questions and Answers**

- Question: Is the committee that was formed, still active?
  - Curt's Answer: Yes. Every year, just before tentative rates come out, we have the ability to see what the numbers are going to look like. The analysts in Albany use SPSS to calculate the equalization numbers. It is pretty much a foreign language to most of us. And, even if we did know SPSS, we don't know their model so our numbers are still not going to come out the same. When we see that there are big spreads between equalization rates for towns that are similar and/or that share a school district, we challenge them.
  - Because of the way my county maintains our program on a Citrix server, I can actually run reports on every other town in the county. I can analyze their sales; I know what their ratios are; and they know mine. I can download sales do a quick analysis of them. All the information is there at my fingertips including photos. I know everybody is set up different, and that's part of the problem in the state.
- Question: Have you been able through this process to get the state to change?
  - Curt's Answer: Absolutely. For example, years ago, we noticed that the state was using the same trend for both residential and commercial properties. Generally, most of our sales are residential, like they are elsewhere. When residential was going up over 15%, ORPS was using 12% or 15% on our

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commercial properties as well. However, in the real world, residential can be going up while commercials are going down. In fact, they seldom go up the same.

- ORPS was using sales, and to value commercial properties using only sales is very difficult.
- We wanted to get income and expense statements from representative commercial properties in the county. Our county director reviewed the entire county and identified the five most common types of commercial properties in the county: apartment houses, big box industrial, retail and so on.
- The assessors then went out to property owners that they knew in each of the five most common types of commercial property. They talked to people that they had confidence in, and got rental/income and expense information.
- We collected 250 income and expense statements and made a model for the county. ORPS now uses that information to determine our trends for commercial properties. We don't see 15-18% increases anymore. In some areas of the county, we're actually seeing decreases.
- A few years ago, I discovered that ORPS was using commercial sales for the entire region north of Albany for the most part, as one database. Now, can you imagine using sales or market information from Lake Placid and equating that to a mom and pop store in Washington County that is 30 miles away from the Thruway, or the Northway. It made no sense.
- Dave Briggs had a case, a year or so ago in which to create trends for vacant land, ORPS took that position that Courtland County was being affected by land sales from Fort Drum. What does Fort Drum have to do with Courtland County? Yet, those were the sales they were using to trend vacant land in Courtland County. It also made no sense.
- Question: Do you see any movement indicating that the counties are going to take the equalization process from the state?
  - Curt's Answer: I've talked to my county director about that and she doesn't want to take over the equalization process. It would be very political.
  - Another part of that problem is the timing when school budgets are voted on. And this problem only gets worse when the school district crosses county lines. The school budgets are voted on the 2nd Tuesday in May. At that time, there is no final roll, the equalization rates are not out yet, and there is no state budget, so the schools have no idea how much money they're going to get. So people are voting on a school budget totally blind.
  - When people vote on a school budget, they should be able to know how much their taxes will go up, if the budget is passed.
    - I think a lot of people were surprised this year when as many school budgets passed as they did. And, in Ulster County, they all went up. It seemed that the day after the vote passed, people began to come into the office and complain about their assessments. Their assessments were fine the day before, but as soon as the school tax increased, it was time to come complain about their assessments.
    - You can go to a school board meeting and often find only three or four people sitting in the audience on a regular night. Or go to a county legislative meeting and there will only be three or four people there that want to address the legislature. But, as soon as the tax bills go out, all of a sudden everybody's assessment is wrong.

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- Question: I know this might be a little bit off subject, but you mentioned short sales in your talk and all of a sudden there are a lot of short sales reflective of the great recession. Can a case be made that short sales can be used as comparables?
  - Curt's Answer: I would not give a lot of credibility to short sales. I had one last week. It was a house that would normally sell in the market that we're in for \$350,000, and it sold for \$210,000. It was a really nice house in a nice development. There was no way the sale could have been a good sale. But, the bank allowed the people, who had a little bit of equity in the house, to sell it. The bank preferred the short sale rather than foreclosing on the house. The bank allowed the sellers to wait for the sale to occur, so the sellers wouldn't get a blemish on their credit record.
  - So, if I were to use that sale and throw it in with the rest of my sales that are arms length sales, in the \$340,000 - \$350,000 range, it would be an outlier. I mean, it's just not something that should be in that mix.
  - I don't know of anyone who has all short sales, but if I did, I would still go back and look at a time period when I didn't have short sales and then trend those sales. I think that's a lot safer.
  - I'll give you another example.
    - You probably don't read much about the City of Newburgh in the newspapers up here, but that place has a lot of trouble with crime. I was doing an appraisal for a two family house there a few years ago. For the previous two years, every sale that occurred for any two, three, or four family house was a tax sale. There was not one arms length sale. Who would buy a house at market value when you could go buy one at the city auction and pay 10 cents on the dollar?
    - So, it was a very difficult appraisal to do. True market value wouldn't be represented by a short sale. Before I would use a short sale, and if I felt that I couldn't jump across a neighborhood line, I would use sales that are a year or two old and trend them.
  - We know how much our property values have changed from last year to this year. So, if you're using a last year's sale, trend it, up or down, whichever way it's got to go. That will make more sense to property owners who come to you with questions. I feel better about using sales in my own community most of the time, unless it's a specialized property where I don't have any sales.