

Office of Legislative Services
Background Report
The Revaluation of Real Property: Answers to
Frequently Asked Questions About the Revaluation
Process

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OLS Background Report On The Revaluation of Real Property: Answers to Frequently Asked Questions about the Revaluation Process

INTRODUCTION

There are few things more upsetting to residential property taxpayers than to hear that a revaluation will take place in their municipality. This is due to a general misperception that a property assessment increase resulting from a revaluation also means necessarily a property tax increase for the property owner. A municipal-wide revaluation is tax neutral and does not increase (or decrease) municipal tax receipts. Following a revaluation, the general municipal tax rate is likely to go down because tax rate is inversely related to assessed valuation, so, when assessed valuation is increased, a lower tax rate will raise the same amount of money for government purposes. Tax bills for individual properties may increase as a result of a revaluation if those properties were under-assessed in valuation compared to other properties in the municipality.

A great deal of the angst felt by property taxpayers about a revaluation is the result of a misunderstanding about the goal of a revaluation and the process which will be followed during a revaluation. This paper provided answers to the most frequently-asked questions about the revaluation process.

WHAT IS A REVALUATION (and how does it differ from a reassessment)?

A revaluation is a program undertaken by a municipality through a State-approved contract with a revaluation firm, to appraise all real property within its borders. Properties are valued according to the prevailing market value, referred to in the statutes as "true value." The requirement that real property be assessed at its true or market value does not appear in the New Jersey Constitution. Article VIII, Section I, paragraph 1 (a) only requires that the property tax burden be distributed equally among taxable property:

Property shall be assessed for taxation under general laws and by uniform rules. All real property assessed and taxed locally or by the State for allotment and payment to taxing districts shall be assessed according to the same standard of value, except as otherwise permitted herein, and such real property shall be taxed at the general tax rate of the taxing district in which the property is situated, for the use of such taxing district. (Emphasis added.)

The purpose of a revaluation is to ensure that the property tax burden is spread equitably among all taxable municipal property owners based on the value of the real property owned by each taxpayer. Periodic revaluations also ensure that improvements or changes to land or buildings are accurately reflected on the municipal tax records so that the owner is properly taxed, thereby assuming his or her fair share of

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the municipal tax burden. Delays in updating assessments generally result in inequitable assessments between similar properties once similar in value, causing some property taxpayers to pay more than their fair share, and other property taxpayers to pay less than their fair share, of the total municipal tax burden.

A revaluation is performed by a specialty firm hired by a municipality for the purpose of conducting a municipal-wide revaluation of real property. According to the Division of Taxation in the Department of the Treasury, there are currently 12 revaluation firms qualified to conduct revaluations in the State. However, not all of those firms perform revaluations in large municipalities. A municipal governing body must submit a proposed contract for revaluation to the Director of the Division of Taxation for approval.

In order to qualify to operate as a revaluation firm in the State, a firm must demonstrate to the director that it is in sound financial condition, as demonstrated through financial statements, and that its employees are qualified to perform the appraisal work required in a revaluation, including meeting minimum years of practical and extensive appraisal experience, in the case of firm principals and supervisors, and minimum hours of in-service training, in the case of field personnel. Personnel determining final land values must meet the qualifications required of the supervisors in direct charge of the work. Resumes of principals and supervisors must be submitted to the director along with the contract.

A revaluation program uses these professional personnel to determine the value of land and any improvements thereon, using information determined from a physical inspection of each property in the municipality, as well as the methods set forth in the Real Property Appraisal Manual for New Jersey Assessors, as well as. These methods require the valuing of land and improvements using information such as data about recent sales of real property in the municipality and a comparison of those sales figures with the assessed values of those properties sold; a review of all real property values in the municipality; a review and revision of land values; gathering of property income data if appropriate; a review and adjustment of obsolescence factors and depreciation; and development of local cost conversion factors and application of those factors to improvements contained in the taxing district. Taxpayers are notified of their revised assessment, and are given the opportunity to review the assessment with a member of the assessor's staff.

By contrast, a reassessment program is an adjustment, or updating, of a previous revaluation or of a previous reassessment. A reassessment program is less thorough than a revaluation program, but also has the same objective to spread the tax burden equitably throughout a municipality. A reassessment program is carried out by the tax assessor and the staff of the assessor's office. An outside firm is not involved in a reassessment program. A reassessment plan must be submitted to, and approved by, the county board of taxation. While a revaluation always adjusts assessments to market value, a reassessment program may only ensure that all properties are assessed using the same standard of value, even if that standard is below market value. For example, if all properties in a municipality were assessed at 70% of their market value, then the tax burden would be equally spread among the municipal property taxpayers. Generally, a reassessment program includes factors similar to those used in a revaluation program, such as an analysis of all recent sales of real property in the municipality and a comparison of those sales figures

with the assessed values of those properties sold; identification of real property value trends in the municipality; a review of all real property values in the municipality; a review and revision of land values; gathering of property income data if appropriate; a review and adjustment of obsolescence factors and depreciation; and development of local cost conversion factors and application of those factors to improvements contained in the taxing district. In the case of a reassessment, taxpayers are also notified of their revised assessment, and are given the opportunity to review the assessment with a member of the assessor's staff.

WHEN IS A MUNICIPALITY REQUIRED TO PERFORM A REVALUATION?

There is no statutory requirement that a revaluation be performed by a municipality at any given interval. A municipality is required to perform a revaluation when municipal data indicate that properties in the municipality are not being assessed at the same ratio to their true value. One of the best sources of this type of information is the assessment-sales ratio data gathered in the equalization program for the distribution of State school aid.¹ An individual assessment-sales ratio is determined by dividing a property's assessment by its sales price. (For example, a property assessed for \$100,000, which sold for \$150,000, would have a 67% assessment-sales ratio. A property assessed for \$200,000 which sold for \$175,000 would have a 1.14% assessment/sales ratio.) If these individual ratios vary widely, a revaluation program should be undertaken. If most of these ratios fall within a narrow range, this is a sign of substantial equality in assessments, and a revaluation would not be necessary.

Another method of determining the need for a revaluation program is by studying the coefficients of deviation for the municipality that are published annually by the Division of Taxation in the Department of the Treasury. A higher coefficient of deviation indicates a lack of uniformity of assessments and a need for a revaluation, while a low coefficient of deviation indicates a better degree of assessment uniformity and no need to revalue.

According to the Handbook for New Jersey Assessors, published by the Division of Taxation, the division publishes annually for each municipality three coefficients of deviation, which are expressed as percentages: the general coefficient of deviation; the stratified coefficient of deviation and the segmented coefficient of deviation.

¹Every year the Director of the Division of Taxation performs a study throughout the State comparing prices from the actual sales of real estate with their assessed values. For each municipality a sales to assessment ratio is determined from these data. This sales to assessment ratio is the basis for equalizing taxes for the fair apportionment of county taxes and for determining and distributing school aid.

The *general coefficient of deviation* measures the variation in assessment-sales ratios for all properties in a municipality. It is the average deviation of individual assessment-sales ratios from the overall average assessment-sales ratio of sales of real property occurring in the municipality, and is calculated using sales data from the sale of those properties. A general coefficient of deviation of 15 or less is considered acceptable, and no revaluation is needed. Effectively, this means that as long as all real property in the municipality is assessed at somewhere between 85% and 115% of the average, no revaluation is necessary.

The *stratified coefficient of deviation* measures assessment uniformity within each class of municipal property. The classes of real property are vacant land, residential, farmland, and all other.

The *segmented coefficient of deviation* measures the degree of uniformity of each property classes against all property classes combined. It represents the average deviation of all assessment-sales ratios within a particular class of property from the average assessment sales-ratio of all sales of properties occurring within the municipality.

WHAT HAPPENS WHEN A MUNICIPALITY FAILS TO PERIODICALLY PERFORM A REVALUATION?

If the real property in a municipality has not undergone a revaluation or reassessment for a long period of time, some properties in the municipality may be assessed at a small fraction of their true value, while other properties in the municipality may be assessed at close to or above their true value. Clearly, the properties that are assessed closer to, or higher than, true value are carrying part of the tax burden properly belonging to the properties assessed at a fraction of their true value. After a revaluation, properties formerly assessed below true value will likely experience a phenomenon referred to as "fiscal shock" as the taxes due and payable on the property significantly increase to represent a fairer share of the local tax burden. Of course, properties that were assessed at close to, or higher than, true value will likely experience a reduction in property taxes as other properties shoulder their fair share of the overall property tax burden.

WHAT HAPPENS DURING A REVALUATION?

The municipality will hire a professional revaluation firm, with State approval, to conduct the revaluation on its behalf. The revaluation firm assists the assessor in conducting an information program for municipal residents about the revaluation process. Employees of the firm will review the municipal tax map and the property record cards maintained on each unit of real property in the municipality and attempt to conduct an inspection of each individual parcel of real property in the municipality. However, as a property owner has the right not to allow entry onto his or her property, the revaluation firm employee must advise the assessor of each case in which an inspection cannot be done, and then a judgment of value is

made from an inspection of the outside of the property and from similar properties.

The revaluation firm will also review sales data for sales of real properties in the municipality. At the end of the revaluation process, the revaluation firm will determine a true value for each parcel of real property in the municipality, and that value will become the appraised, or new assessed value. The revaluation firm must give each taxpayer an opportunity to review and confer with the firm about the proposed appraised value of his or her property. At its own expense, the revaluation firm must mail a written notice to each taxpayer, approved by the assessor, showing the appraised value of the property and advising the taxpayer of his or her right to attend an individual informal review concerning the value of the property as developed by the revaluation firm. All reviews must be completed by November 1 of the year in which the revaluation is performed.

The Handbook for New Jersey Assessors describes the procedure for a taxpayer review with the revaluation firm. Each taxpayer attending a review must have an individual meeting with a qualified member of the revaluation firm; sufficient time must be allotted to hear and conclude reviews on or before November 1 of the revaluation year; a written record of each review, in a format approved by the assessor, must be provided to the assessor; suggested revisions by the firm resulting from the taxpayer reviews are to be made with the consent of the assessor; and each taxpayer must be informed in writing by the revaluation firm of the results of their assessment review within four weeks of the conclusion of all reviews. An aggrieved taxpayer may then file an assessment appeal with the county board of taxation.

WHAT RECOURSE DO I HAVE IF I OBJECT TO MY PROPERTY'S NEW VALUE?

The law provides a property owner several mechanisms for appealing an assessment that he or she deems to be too high. N.J.S.A.54:3-21 authorizes taxpayers, no later than April 1st of each year, to file an assessment appeal with the county board of taxation. If the assessed valuation of a taxpayer's property exceeds \$750,000, the appeal may be made directly to the Tax Court. The filing of an appeal with the county board of taxation requires the payment of a filing fee in the amount of \$5 for a property having an assessed value of less than \$150,000; \$25 for a property having an assessed value of more than \$150,000 but less than \$500,000; \$100 for a property having an assessed value of more than \$500,000 but less than \$1,000,000; and \$150 in the case of a property having an assessed value of \$1,000,000 or more. N.J.S.A.54:3-26 requires the county board of taxation to hear and determine all assessment appeals within a 3-month period, except that the Director of the Division of Taxation in the Department of the Treasury may grant an extension of this 3-month period if the county board of taxation is able to demonstrate the need for an extension.

A judgment by a county board of taxation may be appealed to the Tax Court by any party involved in the appeal (the taxpayer or the municipality in which the property is situate).

N.J.S.A.54:3-26 also requires that, when no request for review is taken to the Tax Court to review the action or determination of the county board, the judgment of the county board shall be conclusive and binding upon the municipal assessor and the municipality for the assessment year, and for the next two assessment years, unless the value of the property has changed after the assessment date. This binding judgment and assessment "freeze" terminates with the tax year immediately preceding the effective date of a complete revaluation or reassessment of all municipal real property. Also, if, as of October 1 of the pretax year (the year immediately preceding the tax year), the property has gained an addition that qualifies as an added assessment, has converted to a condominium or cooperative, or has been subject to a subdivision or a zoning change, then the binding effect of the county board of taxation's judgment will terminate with the pretax year.

HOW DO I KNOW WHAT MY PROPERTY ASSESSMENT FOR EACH TAX YEAR IS?

N.J.S.A.54:4-38.1 requires the tax assessor to notify each taxpayer of the current assessment and preceding year's taxes by mail prior to February 1st of each year. Thereafter, the assessor or county board of taxation is required to notify each taxpayer by mail within 30 days of any change to that assessment. The notification of change of assessment must contain the prior assessment and the current assessment. Any notice issued by the assessor or county board of taxation must also contain information instructing taxpayers on how to appeal their assessment.

WHAT WILL HAPPEN TO MY PROPERTY TAXES FOLLOWING A REVALUATION?

As the purpose of a of a municipal-wide revaluation of real property is to equitably distribute the property tax burden among all taxpayers, a taxpayer whose property was undervalued prior to revaluation will likely see an increase in real property taxes. Similarly, a taxpayer whose property was overvalued prior to revaluation will likely see a decrease in real property taxes. A taxpayer whose assessment was close to true value prior to the revaluation should not see any significant change in real property taxes.

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