Floodplain Manager's Notebook

MARKET VALUE SUPPLEMENT

By Ray Carroll, MAI, SRA, CFM

Over the next several issues of the *Insider,* I'll write about the appraisal challenges associated with determining the market value for use in making NFIP-required substantial improvement and substantial damage determinations. Today, I want to focus on the adjusted assessment method. As the default method used most often, it deserves more than a passing glance.

Let's begin by understanding that ad valorem tax assessments were never intended to be used the way we use them for SI/SD determinations. This method is popular because it is quick, inexpensive, and manageable by community officials. For modest repairs or improvements, the method usually works.

All of the following conditions must be met when the adjusted assessment method is used:

- The building must be assessed (not all buildings are);
- You must know the assessment that applies to the "under-roof" portion of the building;
- You must know the assessment ratio; and
- You must make the adjustment mathematically correct.

Tax Assessor: Sometimes referred to as the tax appraiser, county appraiser, or auditor.

Ad valorem assessment: Literally, an assessment "according to value." It is the job of the tax assessor to periodically appraise all property in his/her jurisdiction.

Assessment ratio: The ratio of a property's assessment to its 100% market value. If assessments are supposed to be 85% of market value, then the assessment ratio is 0.85.

Let's assume we're considering a proposal to improve someone's house, with a detached two-car garage and an attached swimming pool and pool enclosure. Elsewhere on the property is a boat dock, a paved driveway, and a tool shed. Assessments are developed using a computer model that starts with a land value estimate. When there are improvements, their replacement costs are estimated and deductions are made for depreciation. In this case, the house and its attached pool and pool enclosure would have the costs grouped together, and separate costs would be estimated for the rest of the improvements. When you're evaluating an application to improve the residence, <u>only the value of that building</u> applies. That's why it's important to ask for the assessment that applies to the under-roof portion of the building you're interested in.

Most assessment information available online is not in a useable format. That means we need to do more work, because it's our job to get the right information. Here's how to do that:

1. Before you do anything else, contact the local tax assessor's office and ask to talk to someone about the assessment ratio. The data processing division is a good place to start. Explain how you're using the assessment information and then ask, "What is the assessment ratio for XYZ County?" Most assessments are set at a fraction of market value. This is to avoid overassessment and resulting lawsuits. Usually there is a targeted assessment percentage set by statute. Sometimes a state agency that audits assessments will require local tax assessors to file a formal report setting forth the assessment percentage for a given jurisdiction. Once you learn how things are done in your jurisdiction, get a copy

of whatever document certifies the assessment percentage. It should be a public document, and you'll only need to ask for it once a year when the new tax roll is certified.

2. Develop a personal contact at the local tax assessor's office who you can talk to or email regularly. I say "develop" because you're likely to have to explain what you want and what you're doing. If you're patient, and you take time to develop a relationship, then it will save you time later when you email other requests.
3. When you make a request for assessment information, identify the property (probably using a property tax ID #), and ask for "<u>the assessment that applies to the under-roof portion of the building.</u>" This is the only way to be sure you have the correct assessment.
4. Once you know the assessment ratio, and you have the correct assessment information, it's just easy math to use the adjusted assessment method, you divide the building assessment by the assessment ratio. Here's how the math works:

   Assume the building assessment is $85,000 and the assessment ratio is 0.85:

   $85,000 ÷ 0.85 = $100,000, which is the building value.

   [Careful! Don't multiply by the assessment ratio! For this example, that yields $85,000 × 0.85 = $72,250.]

For as often as this method is used, we should use it properly and have confidence in the results. Though the adjusted assessment method is simple and easy to use, we should be aware that it has some major drawbacks:

- It is common across the country to find places where assessments are set at very low percentages. Assessment ratios as low as 30% or 35% are not uncommon. The lower the ratio, the more sensitive the adjustment process becomes, and the less reliable is the outcome.
- Assessments always lag the actual market because there must be a supply of recent sales activity for the assessor to build the assessment database. In jurisdictions that reappraise annually, it is possible that assessment information is as much as 18 months old, but many communities don't reappraise annually. Some reappraise no more often than every five years. That means you'd be working with an assessed value that is more than five years old.
- Not all buildings are assessed. For example, condominium units are assessed individually, and the assessment does not separate the land value. Neither does it separate other common-element improvements all of which are included in each unit's assessment. The adjusted assessment method should never be applied to condominium ownership situations. Other buildings, especially if they are exempt from property taxes, are sometimes not assessed with the same attention to detail as tax-paying property. This is especially true of government buildings. There are some buildings that aren't separately assessed because they are part of a larger whole. A good example is the clubhouse in a packaged golf community.

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