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ANALYSIS OF ASSESSMENT PRACTICES

By

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Property Taxation and Assessment Consultants

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1. Introduction

1.1 Purpose, Scope, and Approach of Study

Rhode Island law requires taxable real and personal property to be assessed at a uniform percentage of its full and fair cash value. The thirty-nine cities and towns are responsible for assessment. Local assessors generally rely on contractors to conduct decennial revaluations. The contractors use different valuation methods (although greatest reliance is placed on the cost approach). Although the State equalizes local assessments for purposes of school aid distribution, it does not supervise the performance of local assessors. As a result, property is valued as of different dates and by different methods. Achieving accurate, uniform assessments is difficult in this setting. The disparities in local practices also make it difficult for the State to make defensible estimates of equalized property value for use in the distribution of state aid.

The State of Rhode Island and Providence Plantations engaged Almy, Gloudemans & Jacobs to analyze existing assessment practices. The purpose of the analysis was to identify the strengths and weaknesses of the existing system of property taxation and to recommend ways to improve it. The goal is bring real and personal property assessments into line with current standards of uniformity and accuracy. Implicit in this goal is a system in which valuations are updated more frequently using contemporary market evidence. In addition, the review was to identify ways for the State to obtain from local governments the information it needs in a timely and efficient manner. A weak economy and fiscal stress impose a condition that recommendations be cost-effective.

The scope of our review of assessment practices was broad and included the setting for property tax administration, the current legal framework, work loads, resources, management practices, state-level supervision of local assessors, data collection and management, real property valuation, personal property assessment, and public information and relations. The review included certain aspects of tax administration but not collection. The review was general in the sense that we did not critically evaluate the practices of any assessor=s office. Consequently, our criticisms of current practices should not be construed as criticisms of the performance of any assessor=s office or individual.

Indeed, an overriding impression was of conscientious state and local officials laboring in often difficult circumstances.

The review combined on-site interviews with state and local assessment officials and a survey of local assessors. We also made an independent study of the level and uniformity of assessments. We interviewed representatives of revaluation contractors active in the state. In addition, we met with representatives of the Rhode Island Public Expenditure Council and with concerned business taxpayers.

1.2 Property Tax Systems in the United States

This section presents an overview of contemporary property tax systems, the assessment process, and mass appraisal in the United States. It provides the context for many of our recommendations. It will be particularly useful to readers unfamiliar with assessment practices. Experts in the field may wish to skip it.

1.2.1 Property Tax Systems

A property tax system may be thought of as comprising policies, procedures, data, technology, and people. There is a time dimension as well. From another perspective, a tax system consists of an administrative or internal control component, an assessment component, and a collection component. The administrative component controls the other two. The assessment component determines who is to pay a tax and the size of each taxpayer's share of total taxes. The collection component (which is outside the scope of our study) receives tax payments, accounts for them, and deposits the receipts in the appropriate treasury.

The assessment component also has sub-components or phases: original assessment, review and appeal, and supervision. We describe *original assessment* activities in sections 5 through 9 and 11. *Appeal* refers to the process whereby taxpayers challenge their assessments. An appeal agency has the power *only* to alter assessments that have been appealed (section 10). *Review* technically refers to the power another government agencyCsuch as an appeal or supervisory agencyCmay have to

examine assessments and revise them *on its own initiative*. No Rhode Island agency appears to have review powers. *Supervision* refers to oversight and coordination activities discussed in section 1.2.5 and evaluated in section 4. *Equalization* describes the process a supervisory or review agency might use to make blanket adjustments through the use of factors to the total appraised values (or assessments) of entire assessment districts (*interjurisdictional equalization*) or of classes of property within a district (*intrajurisdictional equalization*). The Rhode Island Department of Administration has limited equalization powers, as discussed in section 4.

1.2.2 The Assessment Process

The tasks an original assessment agency must complete to produce an equitable tax roll include:

1. *Locate and identify all assessable property in the jurisdiction.* An assessor's major tool for identifying and locating real property is an up-to-date and complete set of cadastral maps displaying every parcel of land. Each parcel should be assigned a unique parcel identification number for identifying the parcel in other records. Returns submitted by taxpayers should be used to identify and locate taxable personal property. (See section 6.)
2. *Make an inventory of the quantity, quality, and important characteristics of all assessable property.* This task frequently is referred to as "data collection" or "data verification." Each parcel of land and any improvements should be inspected periodically, and a record describing the salient land and building characteristics should be maintained. Building and demolition permits should be monitored. Property records should contain building perimeter sketches. Maintaining photographs of buildings is desirable. (See section 6.) Records also should be made of holdings of taxable personal property. (See section 8.)
3. *Estimate the value of each assessable property.* Professional standards require that assessors use all appropriate techniques to value property. The techniques use three traditional approaches to value. The sales comparison approach is the preferred approach when sufficient valid sales are available. The income approach should be used in the appraisal of rented property if sufficient income and expense data can be obtained. The cost approach

serves as a default approach in the appraisal of improved property (buildings). (See sections 7 and 8.)

4. *Determine the taxability of each assessable property.* The law will identify the property that must be assessed and the types of property eligible for exemption from taxation. An assessor must be conversant with the requirements of legislation and case law affecting the taxable status of property and property owners. (See section 9.)
5. *Calculate the assessed value of each property.* In the simplest case, the appraised value is the assessed value, unless all or part of the value is exempt from taxation. Many states, however, assess property at a percentage of appraised value, a complication that makes the property tax more difficult to understand. However, the additional calculations are mechanical.
6. *Prepare and certify the roll.* Laws usually require the assessor to list all property on an assessment roll and to prepare a certificate attesting to the sufficiency of the roll and to compliance with statutes for its completion. The roll serves as the basis for taxation.
7. *Notify owners of the assessed values of their properties.* Laws usually require assessors to mail a notice to each taxpayer of a new assessment either prior to, or at the same time as, the date set for completing the assessment roll. The notice should provide sufficient information for the taxpayer to decide whether the assessment appears fair or whether to pursue an appeal. The notice also should outline appeal rights and procedures. (See section 11.)
8. *Defend value estimates and valuation methods during appeals by taxpayers.* Assessment appeal is an important component of the overall assessment process. In property taxation, in contrast to other taxes where administrators audit assessments made by taxpayers on returns, taxpayers "audit" the work of tax administrators during the appeal process. Assessors should be able to explain and justify their assessment to taxpayers and appeal bodies. Assessors also should be able to evaluate the arguments made by taxpayers and concede when the assessment should be changed or counter the arguments when the assessment should be sustained. (See section 10.)

9. *Calculate tax rates and bills.* Ordinarily the calculation of individual tax bills culminates the assessment process. In Rhode Island, tax rates and bills are calculated before appeals. Consequently, taxes must be abated if the appeal is successful.

1.2.3 Developments in Mass Appraisal

The roots of the current Rhode Island property tax system can be traced to the 17th century, during which taxes first were levied on land and other forms of wealth. The science of valuation began to be developed in Europe in the 18th century. By the beginning of the 20th century the new science of valuation had been applied *en masse* to the appraisal of all taxable property in an assessment district. Hence the term "mass appraisal." When computers became available to assessors in the late 1960s, mass appraisal began to be referred to as "computer-assisted mass appraisal" or "CAMA."

Mass appraisal requires the maintenance of sales files and other market information. Mass appraisal also requires assessors to develop *mass appraisal models*, which are mathematical representations of how supply and demand factors affect market values. The development process involves model *specification* and *calibration*. Calibrated models, sometimes referred to as *valuation standards*, take many forms, including the land value tables, cost schedules, and depreciation tables familiar to most assessors.

CAMA systems have become more powerful. Initially a CAMA system consisted of a custom-programmed application of the cost approach. In contrast, today's CAMA system includes a flexible database management system, a market model module (usually multiple regression analysis or "MRA"), a comparable sales selection module, an income capitalization module, a cost module, and a sales ratio analysis module. The system may be an integrated package or a collection of individual program modules, possibly including generic database, spreadsheet, and statistics packages. By developing market, income, and cost models, an assessor's office can generate multiple estimates of a property's value, evaluate them and choose the best, and evaluate overall valuation performance, in conformity with contemporary professional standards.

Contemporary mass valuation emphasizes quality assurance. Training and data quality checks are important components of quality assurance. Valuation quality assurance measures include sales ratio studies before and after the revaluation exercise, to tests of valuation models, to extensive reviews of individual value estimates.

Modern CAMA systems can include crisp graphic images of perimeter sketches and be linked to a geographic information system (GIS), which facilitates spatial analyses important in market area identification, land valuation, and in estimating economic obsolescence. They may incorporate an imaging system containing digital pictures of properties, which eliminates the need for some field inspections. Some assessors use hand-held computers in the field in data collection to eliminate the need to fill out a paper data collection form and to permit on-the-spot data edits, thereby eliminating the need for follow-up field inspections.

Accurate property data are valuable to more than assessors. This fact provides incentives for local government agencies to develop integrated computer systems and to share the costs of implementing new technology for data maintenance and analysis, such as computerized mapping and GIS systems. Provided that freedom of information laws allow it, governments can recover part of these investments by selling data products to the private sector.

CAMA systems have changed mass valuation work in another important way. Before computers, the work involved in a *revaluation* was so laborious that most assessment districts could not afford to do a revaluation more often than every four years or so (in Rhode Island, ten years). Hence, revaluations were done on a *project* basis, usually with the help of a contractor, who could bring both the project management expertise and temporary staff needed to complete the job satisfactorily. With a CAMA system, revaluation can become a *process*. Valuation accuracy is monitored through regular ratio studies. Small deviations from performance standards can be handled by simple indexing, often referred to as *Atrending*.⁶ Valuation models can be recalibrated when indexing cannot produce the desired results. At the same time, a schedule can be developed for inspecting properties to ensure that they are accurately described.

Changing revaluation from a periodic project basis to an ongoing program basis offers major benefits. Most important, by maintaining accurate, up-to-date valuations, tax burdens are more equitably distributed. Changes in the composition of the tax base are gradual. Political opposition to revaluations disappears. Property owners can more easily predict what their taxes will be, and taxing districts can better judge their tax capacity (also see section 2.1). The annual costs of an ongoing revaluation program compare favorably with the annualized costs of periodic revaluations.

1.2.4 Professional Standards and Credentials

A growing body of knowledge in mass valuation and assessment administration has accompanied developments in CAMA systems. This knowledge has been captured in such works as *Improving Real Property Assessment: A Reference Manual*, published by the International Association of Assessing Officers (IAAO) in 1978, and *Property Appraisal and Assessment Administration*, published by IAAO in 1990. This knowledge also is being spread throughout the assessment field by IAAO's educational program, which includes courses in basic appraisal principles, computer-assisted mass valuation, and administration.

The IAAO began incorporating the body of knowledge of mass valuation and assessment administration in a set of voluntary Assessment Standards in 1976. Currently fifteen standards are in force. (A useful road map to IAAO's assessment standards is *Guide to Assessment Standards: A Special Paper prepared by the Assessment Standards Committee*, published in 1990.) In the context of developing a defensible assessment system in Rhode Island, the most important standards are *Standard on the Application of the Three Approaches to Value in Mass Appraisal* (1983, revised 1985), *Standard on Mass Appraisal of Real Property* (1984), *Standard on Urban Land Valuation* (1987), *Standard on Valuation of Personal Property* (1985), *Standard on Cadastral Maps and Parcel Identifiers* (1988), *Standard on Assessment Appeal* (1981), *Standard on Public Relations* (1988), *Standard on Education and Training for Assessing Officers* (1989), *Standard on Certification of Assessing Officers and Valuation Personnel* (1979), and *Standard on Ratio Studies* (1990).

In 1986 the IAAO joined with other leading professional appraisal associations to produce the Uniform Standards of Professional Appraisal Practice (USPAP) and a year later to form the Appraisal Foundation. The Appraisal Foundation provides an umbrella for the Appraisal Standards Board (ASB), which maintains USPAP, and the Appraiser Qualifications Board (AQB). In 1991, the ASB developed standard 6, which deals with mass appraising and the documentation of mass appraisals. This standard currently is under revision, and the revised version will have stronger documentation requirements.

In response to widespread public perceptions that assessment personnel were ill-equipped to perform their functions, assessing officers in the 1960s began to develop education and credentialing programs. Initially, the focus was on valuation fundamentals, but by the 1980s, mass valuation and management courses became available. In essence, a new professional assessor emerged. The next section summarizes the extent of state assessment personnel credentialing programs.

1.2.5 State Supervision

Overview. The state is fully responsible for assessment administration only in Maryland. States frequently are responsible for aspects of property tax administration. Valuation of industrial or utility property is common. Some approve exemption applications. However, most states, like Rhode Island, have chosen to delegate most of the responsibility for property tax administration to local governments. Even so, effective state participation in property tax administration is considered vital to the state's interest in having its laws administered uniformly. In addition, a state role benefits local governments. Many of the tools and services that states provide are too costly to be afforded by many local governments. A state role also deters destructively competitive underassessment. A competent state property tax supervisory agency tends to encourage competence in local assessment offices.

We outline a general model of state assessment supervision in this section and compare the Rhode Island model to it in section 4. The model is derived from recommendations made by the U.S. Advisory Commission on Intergovernmental Relations, the International Association of Assessing

Officers, and others. It assigns four broad, interrelated roles to property tax supervisory agencies: (1) standards and specifications, (2) assistance and counseling, (3) monitoring and analysis, and (4) enforcement. These functions presuppose the establishment of standards.

The development of standards and specifications is necessary to effective, uniform administration of property tax laws. Assisting and counseling are helpful and supportive. Although crucial to effective supervision, monitoring and analysis may be seen as an intrusion or a threat. Enforcement is confrontational, with the state in a resented position of power. Therefore, enforcement should be the last resort, but enforcement actions should be taken whenever the first three roles have not produced the desired results. The challenge a supervisory agency faces is achieving the balance of activities that results in the highest level of assessment performance with the least consumption of resources and the least amount of stress. In summary, the model combines effective programs for monitoring local conditions and local assessment performance, a strong commitment to assisting when necessary, "counseling" when performance falls below standards, and enforcing legal standards firmly and consistently.

Application of the model varies greatly. The International Association of Assessing Officers (IAAO) in August 1992 published *Assessment Administration Practices in the United States and Canada*. This taxonomy of administrative and legal features of states and provinces contains extensive information about the roles of states in property tax administration. At the lower extreme, there is virtually no state executive branch involvement in property tax administration in Delaware and Hawaii. Three counties in Delaware and four counties in Hawaii have full responsibility for assessment. In the remaining states, assessment administration is shared among various levels of government. Some states, such as Rhode Island, have little or no legal authority over assessing unit performance. Others have strong oversight and directive powers over assessing jurisdictions. State agency sizes varies from fewer than ten employees to over 1,800. In the study, Rhode Island reported the smallest appropriation for state agency operations of all the states with an assessment supervisory (equalization) function.

State roles in assessment administration are to some degree influenced by the level of government (county, city, town) doing assessing and the number of assessing jurisdictions in the state. County assessing is the most common. A breakdown of the fifty states shows the following:

	Government Responsible for Assessment	Number of States	
	State	1	
	Appraisal district (county or multiple counties)	1	
	County	34	
	Mixed (county, city, town, and/or village)	4	
	City/town	10	

All New England states, plus Indiana, Michigan, New Jersey, and North Dakota have city/town assessing. Michigan authorizes cities and towns to contract with counties to do their assessment function, and many of them have.

Below we summarize noteworthy state supervisory and administrative activities to suggest the options that Rhode Island might consider.

Standards and Specifications. Areas in which states set standards and specifications include:

- X Rules and Regulations. States may go beyond an assessor's manual (see below) and prescribe specific and often detailed rules and regulations, with which assessors are required to comply. In these instances, the state determines both policy and procedure and assessors then carry out the administrative functions pursuant to state requirements. Of course, rules and regulations often are developed in consultation with assessors.
- X Forms and Instructions. Assessors use a great variety of forms. These include forms for property records, taxpayer reporting, sales reporting, exemption applications, tax appeals, and reports required by state agencies. Commonly forms and their accompanying instructions are provided by the state agency to assessors. This results in consistency in procedures and

policy. It facilitates the analysis and sharing of information through computer files or networks.

- X Assessor Qualifications. About forty states have established qualifications for assessors or their appraisers, and the qualifications are mandatory in about thirty (including Maine and Massachusetts). In some instances, a person must be state certified before he or she may perform the function of assessor. In others, a specific time frame is set forth. Penalties for failing to obtain certification vary, with removal from office being one option. Also, periodic recertification is required in nearly half the states. Some states provide monetary incentives for certification. States frequently specify the courses and number of hours of training that an assessor must have. Some require a separate examination. A few states require demonstration appraisals. Appraisers in private practice are now required to be licensed in all states. A number of states have required assessors to meet the commercial (fee) appraiser license requirements also. New Jersey has taken the unusual step of abolishing elected assessors and requiring assessors to be college graduates. As is the case with Rhode Island, a state assessors= association frequently provided the impetus for, and may manage, the certification program.
- X Property Inspection Programs. As part of maintaining current and accurate data on each property, many states require assessors to submit for approval a plan for inspecting all properties within a specified time.
- X Valuation Accuracy (Assessment Performance) Standards. Some states, including Massachusetts, require that assessments meet certain quality standards based on ratio study statistics. For example, the actual level of assessment may have to be within a certain distance from the legal level. In other instances, specified uniformity measures, such as the coefficient of dispersion (which is defined in section 12), may have to be attained. Failure to meet the standards can trigger enforcement actions. In Alabama and Maine the index of the quality of assessing is used as one trigger mechanism to require reassessment.
- X Practice Standards. Increasingly states are developing performance standards for the assessment process itself. These standards extend considerably beyond assessment levels and assessment quality measures. Oklahoma recently has developed an extensive set of

performance standards. Utah assigns grade points to each assessing units. In many states the results of the performance reviews are publicized, which creates pressure on the assessor to meet the standards. Massachusetts reveals its performance review findings only to the assessor and leaves it to the assessor to follow through with corrective actions.

- X Reassessment Specifications. It is common for states to have specific requirements in the conduct of reassessments. These specifications may cover requests for proposals (RFPs), data collection, field verification, valuation methodologies, and taxpayer information and disclosure. Some states require approval of an overall reassessment plan before the reassessment is begun.
- X Taxpayer Information. A number of states have specific requirements about the assessment information that must be provided to taxpayers. At a minimum, this includes notification of any assessment change. In reassessment projects, assessors may be required to submit and request verification of the property data or to provide impact notices explaining the effect of the assessment change on a property owner's tax liability. A number of states have enacted "truth in taxation" provisions, which give taxpayers more detailed information about the relationship of assessments and property tax changes.

Assistance and Counseling. State technical assistance activities vary widely. States provide assessment tools and equipment, technical and professional services, and assist with assessment personnel education. The activities include:

- X Legal Opinions and Interpretations. At least forty-three states, including all New England states, provide some legal and technical support to their local assessing units. This may range from formal legal opinions that will set state policy to a telephone response that enables an assessor to solve a particular problem. New issues and questions are constantly surfacing that require a state response if consistency and uniformity are to be maintained across the state.
- X Manuals. About thirty-eight states, including Maine, Massachusetts, New Hampshire, and Vermont, issue an assessment manual. Assessors are required to use the manual in about twenty-three states. None of the New England states require the use of a manual. These

manuals may be either compiled by the state or commercially prepared. In some cases, the manuals contain only appraisal information, but in many states they contain complete, detailed instructions on many aspects of the assessment function. Appraisal manuals may consist of valuation methodologies, data collection procedures, cost indices, economic indices, and CAMA guidelines. Non-appraisal manuals may cover the responsibilities of the assessor, exemption administration, relevant law, and the appeals process. For manuals to be of value they must be regularly updated.

- X Reports and Newsletters. Assessors need information about what is occurring in the assessment field both within their state and elsewhere. State agencies publish newsletters, reports, or both to provide assessors with important information.
- X Education and Training. As with certification, states play a major role in educating assessment personnel. Like Rhode Island, most states sponsor education programs, and participation is mandatory in about twenty, including Connecticut, Maine, New Hampshire, and Vermont. Education often is contracted out to a state association or university, to the IAAO, or to another organization. Training programs may be quite extensive and include assessment administration; exemption administration; basic valuation methods; advanced use of the income approach; valuation of specific types of property, such as agriculture, land, utilities, personal property, and complex commercial and industrial properties; data collection; computers and software; CAMA; public relations; and professional standards and ethics. Generally, annual conferences are used to update assessors on recent developments. The conferences may be held in conjunction with an assessors= association meeting. In some instances all the training is paid for by the states. Mississippi provides very substantial salary adjustments to those assessors achieving the required training.
- X Computer Services. At least thirty states, including Massachusetts and Vermont, have sponsored the development of computer-assisted mass appraisal systems. About eighteen states, including Vermont, provide computer processing. Some assist with CAMA modeling. The services offered by the states may be free of charge, or in some instances done on a charge back basis. In some cases the computer system and services are mandatory and in other cases at local discretion.

- X Sales Data Bases. Several states maintain sales databases. A database containing commercial, industrial, and vacant land sales is particularly useful.
- X Valuation Assistance. About thirty states provide direct on-site valuation assistance. About twenty-three states assist with property inspections. Valuation assistance ranges from occasional, as-needed services to routine major mass appraisal assistance. Montana, Tennessee, and West Virginia are examples of states providing large-scale assistance. About twenty states assist with valuation modeling. Arizona is an outstanding example of a state involved in mass appraisal modeling and computer processing. States frequently assume responsibility for valuing railroad, utility, and similar property. Oregon, Wisconsin, and other states assess industrial property.
- X Reassessment Assistance. Many states will provide support, both staff and computers, during reassessment projects. Staff assistance may vary from RFP preparation, specialized training, contract monitoring, computer support and modeling, to doing the valuations of complex properties. About twenty-three states, including Connecticut, Maine, Massachusetts, and New Hampshire, help with revaluation contracts.
- X Public Relations. A very important part of every assessor's job is maintaining good public relations. State agencies often produce publications and handouts which assessors can provide taxpayers. These handouts may explain the assessment process, the job of the assessor, reassessments, the appeals process, and various individual exemptions and how to apply. Some states may go further and work with assessors in media relations and provide video materials.
- X State Aid. A number of states provide funding for reassessments or assessment administration improvement. State aid is generally provided as an incentive to entice assessing units to take certain actions. State aid may underwrite part of the cost of training or the assessment process or it may be related to the quality of assessment practices and the assessment roll.

Monitoring and Analysis. As with technical assistance, monitoring and analysis activities vary widely. The least intrusive monitoring activity is requiring summaries or abstracts of assessment rolls. More useful is requiring digital copies of rolls and other assessment records. Ratio studies and

procedural audits are required to evaluate local performance rigorously. Periodic staff visits can supply valuable impressions of performance.

- X Copies of Rolls and Property Records. Copies of rolls and property records provide the data needed for more rigorous analyses of local assessment performance. Several states, including Florida, require tape copies of sales files and assessment rolls. Additional states are moving in this direction as most local assessors now have some computer support. The information contained in assessment rolls and property records is used in the state's ratio studies and other monitoring activities.
- X Ratio Studies. Ratio studies compare assessments with indicators of current market value (such as open-market, arm's-length sales) to produce statistics about the overall level and uniformity of appraisals. About forty-four states, including all New England states, conduct ratio studies regularly. Thirty-nine (including Rhode Island) conduct studies annually, the recommended frequency.
- X Procedure Audits. Procedure audits are necessary to get at the specific reasons why local assessments fail to meet performance standards. Massachusetts is among a small number of states (including Arizona, California, Colorado, Florida, Texas, and Wisconsin) having a program of procedural audits. Interestingly, Colorado contracts with a private firm for its ratio study and procedure audit program. Assessors are allowed to comment on the audit findings. After the audits are finalized assessors are given a specified time to correct the deficiencies cited.
- X Revaluation Contracts and Contractors. In some cases, states require certification of revaluation firms and/or their staff. In other instances states must approve all reassessment contracts between local governments and a revaluation contractor.

Enforcement and Equalization. Strong enforcement tools are necessary to reduce assessment inequities within an assessment district. Effective enforcement requires adoption of specific performance standards, as mentioned above. A variety of enforcement tools have been used:

- X State Orders. A state may have the authority to order a reassessment or equalization of property values, if certain conditions exist. About thirty states have the ability to issue state orders.
- X Fines and Penalties. Many state laws provide for fines and penalties if assessors fail to perform their responsibilities. In practice, these are seldom used, because the cost of assessing them usually is greater than the fine.
- X Removal from Office. Some states have the ability to remove an assessor from office. New York, for example, can and does remove assessors who fail to take and pass the required training.
- X Challenge Valuations. In two states, the state can challenge the valuation of individual property assessments that it deems to be erroneous.
- X State Takeover of the Duties of the Assessor. Related to removal from office, the state may have the power to assume the assessment function if the assessor fails to perform her or his duties. Kentucky recently has taken over responsibility in a number of its assessing jurisdictions. Alternatively, the state may exercise administrative supervision of all or certain assessment functions for a prescribed period of time.
- X Contract for a Reassessment. As most states do not have the resources to conduct a reassessment on short notice, about twenty states have the authority either to hire a private appraisal firm or for the state to perform a reassessment at local expense. Massachusetts, for example, can contract on behalf of a city or town for professional, technical, or appraisal services and deduct the cost of such service from state aid reimbursement.
- X Withhold State Aid. About ten states can withhold state funds (usually education aid or revenue sharing) if there is a failure to adhere to state property tax administration standards. In Vermont, cities and towns with an assessment ratio of less than 80 percent can have their total education aid reduced by one percent for each four percent the city or town falls short of the 80 percent minimum assessment ratio. This has meant a reassessment every three to four years.
- X Removal of the Power to Levy Property Taxes. The strongest enforcement action is to deny a local government the power to levy property taxes unless the assessment roll has been

approved. Usually before such a tool is used, the state has ordered a reassessment and the local government has refused to comply. Florida successfully uses this approach.

- X Equalization. "Equalization" can be viewed as an enforcement tool. In contrast to other tools, equalization is less confrontational and is of limited effectiveness inasmuch as it can only cure inequities among groups of properties and among assessment districts. There are two types of equalization programs. In the first, the calculated equalization factor is applied to each local assessment before the local tax rate is applied. In most states, the same factor is applied to all properties in the jurisdiction. In a few (Michigan, for example), a separate factor may be developed for each major class of property. Equalizing each assessment is more effective because it highlights inequities in the underlying assessments. About eighteen states have this authority. In the second approach, only the total assessed value is equalized. The adjust total (or equalized) value is then plugged into an aid distribution formula. Individual assessments and local taxes are not affected. Along with Rhode Island, Connecticut uses this approach. Under both approaches, the equalization factor is designed to bring the total assessed or appraised value of the district into line with the legal standard. Thus, if the legal assessment level were 50 percent of value and assessments generally were at 40 percent, all assessments would be increased by 25 percent (multiplied by 1.25) to bring the assessing unit to 50 percent. Of course, individual assessments might in actuality be higher or lower than 50 percent.

Administration. As previously mentioned, the state may be directly responsible for administering aspects of the property tax. Common examples follow.

- X Utility and Railroad Valuation. In most states, utility and railroad property is centrally valued and then apportioned back to local governments. Local assessing of utility property is essentially limited to the New England states and New York (with a partial exception in Alaska, Florida, and Texas).
- X Valuation of Complex/specialty Properties. Some states appraise unique or specialty properties for assessors. Local assessment districts find it difficult to maintain the required

specialized valuation skills. Comparable properties usually can be found only in other regions or states.

- X Agricultural, Forest, and Open Space Valuation Standards. Like Rhode Island, many states have tax policies providing preferential tax treatment to agricultural, forest, and open space properties. Value schedules for these kinds of property are generally state-determined and then provided to assessors for their use.
- X Exemptions. In at least one state all exemptions are centrally administered. In Colorado all exemption applications are sent by the taxpayer to the Division of Property Taxation, which then determines exemption eligibility and notifies the assessor.
- X Appeals Process. In a substantial number of states, a taxpayer dissatisfied with the local determination of her or his assessment may appeal to a state appeal body. Three New England states have a state-level administrative appeal body. In Massachusetts it is the Appellate Tax Board; in New Hampshire, the Board of Tax and Land Appeals; and in Vermont, the State Board of Appraisers. Other states, including New Jersey, have special state-level property tax courts.

1.3 Organization of Report and List of Recommendations

Section 2 provides an overview of the fiscal and institutional setting for the property tax in Rhode Island. Beginning with section 3, legal framework, we evaluate aspects of the Rhode Island property tax system. We evaluate the role of state government in section 4. Local assessment practices are evaluated in sections 5 through 11. The last sub-section of each of the main sections contains our recommendations. They are brought together in the following list. Section 12 contains our evaluation of current assessment uniformity in the State. Section 13 suggests an improvement strategy.

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2. Fiscal and Institutional Setting

The setting of a property tax system influences its development and evolution. Consequently, we considered the evolution of the State=s economy, fiscal setting, and political institutions in our review of Rhode Island assessment practices.

2.1 Role of the Property Tax

A state=s economy and its fiscal situation are inter-related. The state of the economy affects tax capacity. Main sectors of Rhode Island=s economy include tourism, financial services, industry, and defense. The latter have declined in recent years. There is little demand for mill properties, which adversely affects the tax base in older cities.

Tax and fiscal policies affect the business climate. As Rhode Island makes limited use of income taxes, greater reliance must be placed on other sources of revenue. Local governments must rely heavily on the property tax. Although property taxes seldom are the key factor affecting business location decisions, high property taxes and discriminatory practices can adversely affect a state=s business climate.

How does Rhode Island=s use of the property tax compare with other states? In Rhode Island, property taxes represented 66.7 percent of local revenues in 1992. The national average is about 26 percent. The range in Rhode Island was 41.8 to 91.1 percent. Five municipalities had percentages under 60 and thirteen had percentages over 75.

Periodically, the Advisory Commission on Intergovernmental Relations (ACIR) does a study of state revenue capacity and effort. The latest study, *State Revenue Capacity and Effort*, published in 1993, uses 1991 data. Tax *capacity* measures the relative revenue-raising ability of the different states. Property tax capacity is calculated by multiplying the property wealth of each state by the average effective national property tax rate. Per-capita capacity is then calculated by dividing tax capacity by population, a scaling factor that allows the individual capacity figures to be compared more easily. A

tax capacity index is then computed by dividing the state per capita capacity by the national average per capita capacity and multiplying by 100.

Tax *effort* measures the extent to which a state is utilizing its available tax base. The ACIR=s tax-effort index is computed by dividing actual per-capita property taxes by per-capita capacity and multiplying by 100.

Table 2-1 presents Rhode Island=s tax capacity and tax effort indexes for all state and local taxes and for property taxes as of 1991.

Table 2-1. Rhode Island Tax Capacity and Tax Effort, 1991

Index	All Taxes	Rank	Property Taxes	Rank
Tax Capacity	89	38	79	39
Tax Effort	115	5	166	4

In terms of capacity, Rhode Island falls below the national average. Only nine other states and the District of Columbia have a lower overall tax capacity than Rhode Island. In contrast, Rhode Island ranks high in tax effort. Only the District of Columbia, New York, Alaska, and Wisconsin rank higher.

Only New Hampshire, New York, and the District of Columbia rank higher than Rhode Island in property tax effort. Table 2-2 presents measures of property tax capacity and effort for the New England states. Rhode Island ranks lowest in capacity. Connecticut probably benefits from its proximity to New York City. New Hampshire=s high property tax effort is explained by its having no personal income tax or sales tax.

The ACIR=s previous study, published in 1991, used 1988 data. In that three-year period, Rhode Island=s overall tax capacity declined significantly, while its tax effort rose sharply. Only three

states (New Hampshire, Connecticut, and Massachusetts) had a sharper decline in capacity. Only New Hampshire, West Virginia, Kentucky, and New Jersey had a greater increase in tax effort.

Table 2-2. Property Tax Capacity and Effort for the New England States, 1991

State	Tax Capacity		Tax Effort	
	Index	Rank	Index	Rank
Rhode Island	79	39	166	4
Connecticut	141	2	121	13
Maine	96	24	124	10
Massachusetts	119	11	104	19
New Hampshire	106	13	190	1
Vermont	117	12	119	14

The ACIR also has studied *representative expenditures* to provide further insights into the differences in the overall costs of government services among the states. The study, *Representative Expenditures: Addressing the Neglected Dimension of Fiscal Capacity*, used 1986-87 data. As with the representative tax system, the representative expenditure system attempts to achieve policy neutrality by comparing each state's expenditures against a hypothetical national average level of service while taking into account differences in work loads and input costs. The *Actual* column of table 2-3 presents indices of expenditures for selected governmental services in Rhode Island. The *Representative* column provides indices of the expenditures required to provide a *representative* level of services, adjusted for input costs. The *Relative* column contains the ratios of the two indices. When the expenditure index is greater than 100, it suggests that Rhode Island provides a higher level of service than is typical nationally or that services are not provided as

efficiently as is typical nationally. In any case, the generally higher ratios for Rhode Island confirm the pressures that governmental expenditures put on the state=s tax systems, including property taxes. Table 2-4 presents expenditure comparisons for all New England states. Rhode Island=s overall index ranks second highest (behind Massachusetts) among the six states.

Table 2-3. Indices of Per Capita State and Local Governmental Expenditures in Rhode Island 1986-87

Function	Index of Actual Expenditures	Index of Representative Expenditures	Ratio
Primary and Secondary Education	92.5	77.9	118.8
Higher Education	82.7	97.7	84.6
Public Welfare	151.6	73.8	205.3
Health and Hospitals	84.1	88.4	95.1
Highways	77.3	69.4	111.4
Police and Correction	82.6	77.4	106.7
Environment and Housing	83.9	97.7	85.8
Interest on General Debt	155.0	100.0	155.0
Governmental Administration	106.1	95.6	111.0
All Other	123.3	98.2	125.5
TOTAL	103.8	85.8	121.1

The composition of the tax base affects the business climate and political acceptance of the property tax. Real property (including mobile homes and utilities) constitutes 87 percent of Rhode Island=s property tax base. Motor vehicles constitute 8 percent and other personal property, 5 percent. Table 2-5 compares Rhode Island to U.S. averages in 1991, the most recent year for which assessment statistics are available. Rhode Island is one of eleven states in which no property is subject to a statewide property tax (of the New England states, only Massachusetts levies a state property tax). The table also reveals that Rhode Island makes comparatively greater use of personal property

taxation. In fact, as a percentage of the total local property tax base, Rhode Island ranks fifteenth nationally. Connecticut ranks seventeenth; Maine, twenty-fifth; Vermont, thirty-third; and Massachusetts, fortieth. New Hampshire does not tax ordinary personal property.

Table 2-4. Indices of Per-Capita State and Local Government Expenditures in New England, 1986-87

Function	Rhode Island	Connecticut	Maine	Massachusetts	New Hampshire	Vermont
Primary and Secondary Education	118.8	117.6	115.6	121.1	114.4	133.6
Higher Education	84.6	60.8	96.2	70.0	77.0	145.3
Public Welfare	205.3	189.4	142.0	223.6	128.8	124.6
Health and Hospitals	95.1	105.6	56.2	141.3	67.8	49.8
Highways	111.4	121.9	103.6	95.2	119.0	133.8
Police and Corrections	106.7	99.5	95.4	125.5	93.9	84.7
Environment and Housing	85.8	94.4	110.9	123.9	74.8	84.3
Interest on General Debt	155.0	134.2	91.0	107.9	115.2	100.0
Governmental Administration	111.0	118.9	95.1	113.5	92.7	127.7
All Other	125.5	149.6	89.0	145.7	75.0	112.2
Total	121.1	118.8	103.5	127.7	97.5	114.9

Table 2-5. Percent Distribution of Assessed Values, U.S. Averages and Rhode Island, 1991

Class of Property	United States	Rhode Island

Class of Property	United States	Rhode Island
State Assessed	4.1	0.0
Locally Assessed	95.9	100.0
Locally Assessed		
Real Property	91.0	84.6
Personal Property	9.0	15.4

Source: 1992 Census of Governments.

2.2 Political and Institutional Setting

Rhode Island exemplifies American traditions of self-reliance and local control. It shares with its New England neighbors a reliance on city and town government. As also is typical of New England, Rhode Island assigns responsibility for property tax administration to its eight cities and thirty-one towns. Its five counties have no role in property tax administration. There are three regional school districts, which adds a potential complication to assessment equalization.

As discussed in section 4 and elsewhere, state government currently plays a limited role in property tax administration in Rhode Island. The State's role also is dispersed among several agencies. The Department of Administration makes ratio studies used in school aid distribution. The Department also certifies tax rates and levies. The Director of Environmental Management has responsibility for classifying farm, forest, and open space land. The Motor Vehicle Registry provides assessors with data tapes of vehicles registered in each city and town. The procedural interfaces between the latter two agencies and local assessors are cumbersome. The Auditor General certifies financial emergencies.

Institutional arrangements for appealing assessments and abating taxes are not clearly delineated. However, actions of city and town councils and boards of assessment review may be appealed to superior court.

Dissatisfaction with perceived deficiencies in the Rhode Island property tax system is widespread. Paradoxically, there is a pervasive sense of apathy, as though the system is beyond repair. The innumerable variations in law and practice may be part of the explanation. The system is too opaque and complex to grasp. Rationalization of policy and practice clearly is in order. We hope this study and our recommendations will help.

3. Legal Framework

Policies and procedures acquire legitimacy through legislation. The legislative framework of a property tax system should lay out policy choices clearly, provide the environment for their achievement, and assign responsibilities. Laws, regulations, and court decisions establish the legal framework. We reviewed Rhode Island property tax legislation to understand institutional arrangements better, identify legal standards and requirements, identify areas of conflict between laws and practice, and identify conflicts between legislation and professional assessment and appraisal standards. In particular, we considered the requirements of a defensible assessment system. We also considered how best to reconcile conflicts between market value assessment and concomitant shifts in property tax burdens.

Our chief legislative reference was the 1994 edition of the Office of Municipal Affairs's *Compilation of Laws Relating to Local Finance from the General Laws of Rhode Island, as Amended*.⁶ Although a very helpful compilation, it is incomplete and contains few annotations. Apparent typographical errors make the at times archaic statutory constructions even more difficult to read. Legislative intent is not always obvious.

3.1 Overview

Rhode Island law on property taxation focuses primarily on procedures to be followed, rather than on policies to be carried out. This focus stems from the extreme degree to which Rhode Island has delegated property tax issues to its cities and towns. Perhaps more than any other state in the nation, not only property tax administration but also property tax policy is a matter primarily left to the cities and towns. A statement in section 42-44-25 perhaps best sums up the overall legal framework. It states "that nothing in this chapter shall be construed as giving the said department [Administration] any power to interfere with the duties of the duly elected or appointed and qualified tax officials of the several cities and towns in determining assessments or rates of taxes of the respective cities and towns."

State statutes can be quite narrowly drawn. In these instances one will normally find a large body of law and extensive programmatic and procedural detail. The intent of the legislature will be clearly understood and very little will be left to interpretation or administrative discretion. The downside of this approach is the constant need for amendments, as there are always exceptions, and situations and circumstances keep changing. Conversely, statutes may be broadly written. Such laws require amending fairly infrequently but may be subject to either varied interpretations or opaqueness because of their lack of specificity. Rhode Island property tax laws tend to fall more into this latter category. This result may stem in large part from a past desire to maximize the local role in property taxation and minimize the State role.

A noteworthy feature in Rhode Island law is the number of enactments that pertain only to a single city or town. Generally, state laws set the parameters and then may or may not allow local flexibility. Rhode Island has both a high degree of local flexibility and individual local ordinances. One easily concludes that the result is thirty-nine quite different and distinct property tax systems.

An equally impressive feature of Rhode Island property tax system is the latitude given cities and towns to tax motor vehicles and non-manufacturing personal property at differential rates from real property seemingly without express legal authority. Although this has few implications for assessment practices, it seems inconsistent with the State's constitutional requirement that taxes be fairly apportioned.

An important part of any legal framework is a high degree of respect for, and adherence to, the laws. In our various meetings and interviews there was little respect evidenced for some current property tax laws, and failure to adhere to them was frequently deemed normal. Understanding and interpreting the laws were a clear problem. Inconsistent and contradictory interpretations appear to be common among assessors. Assessors seemed willing to take the actions they believed made the most sense without a lot of concern for legal requirements. In part their actions stemmed from a lack of sufficiently authoritative sources to turn for help and guidance.

As pointed out elsewhere, several sections of the law are being ignored or not carried out. These sections were frequently pointed out by assessors. The failure to implement or follow certain sections has the carry over effect of reducing the credibility and standing of other sections. If one section can be ignored with impunity, then why not others?

In many states, property tax laws contain incentives or penalties to improve compliance. Rhode Island property tax law essentially has neither. While some personal property requirements contain enforcement provisions, most sections do not. This presents problems both for the Department of Administration and the local assessors in carrying out their responsibilities. This lack of sanction further encourages and leads to abuse and non-adherence to the legal requirements.

3.2 Legal Basis of Assessment and Revaluations

3.2.1 Legal Basis of Assessment

Uniformity Standard. Uniformity implies proportional taxation. Article 1, section 2, of the Rhode Island Constitution contains the following clause: A[T]he burdens of the state ought to be fairly distributed among its citizens.@ Usually, the notion of Afairness@ embraces the notion of uniformity. However, Rhode Island law and practice create countless examples of non-uniformity in effective property tax rates.

Section 45-5-12 requires uniform assessments. Assessors are in disagreement about how to reconcile the uniformity requirement with the ten-year revaluation requirement discussed below. Surprisingly, there appears to be no explicit statutory requirement that tax rates be uniform within a class. Perhaps the use of the singular noun Arate@ implies uniformity. This appears to leave the door open for localities to adopt classified rates, as eleven now do.

Standards of Value. The general legal basis of assessment is "full and fair cash value" (45-5-12), which is synonymous with market value. However, the statutes contain exceptions.

Chapter 44-27 intends that qualifying farm, forest, and open space land be valued preferentially based on current use value rather than market value. No mechanism for estimating use values has been established. Section 44-27-8 states the "Department of Administration shall annually publish all information which it collects that relate to land values for different types of farm, forest, or open space lands. Said information shall be made available to local assessors." Since no information is developed, the Department publishes nothing. Therefore, nothing resembling a current use value program, despite chapter 44-27, is now in place. Farm, forest, and open space may be receiving lower assessments, but not in any rational, fair, or justifiable way.

There are at least two arbitrary valuation standards. Average retail value is the basis of the motor vehicle excise tax, except that vehicles over twenty-five years of age are deemed to have an average retail value of \$500. Public service corporation property is to be taxed on the basis of net book value as long as that value is no less than 25 percent of original cost.

Level of Assessment. Except as noted below, all property is to be assessed at a uniform fraction not to exceed 100 percent of full and fair cash value. Surprisingly, the assessor is to determine the fraction. This potentially gives the assessor a large voice in a municipality's fiscal policy under the current scheme of rate and levy limits. Eight towns now assess property at less than 100 percent. The statutes are construed to permit differential assessment ratios for motor vehicles, and six municipalities assess them at a higher ratio than other real and personal property.

3.2.2 Revaluation

Perhaps no other aspect of the Rhode Island property tax system is as problematic as the provisions for making revaluations. The prospect of a new decennial revaluation seems to stupefy both city and town officials and taxpayers. Significant shifts in tax burdens among classes of taxpayers and the occasional huge individual increases in property taxes despite rate rollbacks make revaluations unpopular. Revaluations are costly and difficult to bear when the result may be a smaller tax base.

Article VI, section 12, of the Rhode Island Constitution mandates the General Assembly to Afrom time to time, provide for making new revaluations of property, for the assessment of taxes, in such matter as they deem best.© Section 44-5-11, enacted in 1988, attempts to put each municipality on a ten-year revaluation cycle, the longest legal cycle in the nation (Connecticut and Maine have had the same interval between revaluations). However, there is no penalty for exceeding the limit.

As with many other aspects of Rhode Island property tax law, assessors do not agree on the meaning of 44-5-11. Most assessors believe that, except when physical changes to properties are involved, such as new construction or demolition, reappraisals cannot take place sooner than every ten years. Moreover, they believe that base rates cannot be changed, even though their use produces value estimates that are clearly out of line with contemporary market values. However, some assessors do not have a policy of strict adherence to the policy of exclusively using the base rates developed during the last revaluation until the next revaluation. For example, they may adjust appraisals to allow for recently discovered environmental contamination even though no physical change has occurred.

A minority of assessors believes that revaluations can be made as frequently as necessary to ensure that property is assessed on the basis of its full and fair cash value under 44-5-12. Thus, if one neighborhood or class of property appreciates or depreciates faster than others, those assessors may make assessment changes.

A close reading of 44-5-11 would suggest that *both* groups could be right: The cities and towns that had not revalued in the seven years prior to 31 December 1980 and were directed to revalue by 31 December 1983 *may* revalue more frequently. Whereas, Cumberland, Woonsocket, and the cities and towns that had revalued in the seven years prior to 31 December 1980 appear to be placed on a fixed ten-year cycle.

As the above discussion shows, the belief that revaluations can occur only every ten years requires adoption of a *base year* doctrine. That is, new and physically changed properties must be appraised

using historic valuation standards in order to achieve procedural uniformity. If new properties were valued on the basis of contemporary price levels, they would be over-valued relative to older properties in a rising market (and vice versa in a falling market).

In any event, the base year concept is a frail basis for levying property taxes equitably. Fixing a date in the distant past as the basis for current valuations conceptually requires the valuer to assume that the general economy and development patterns are frozen in time, which is unrealistic in cases of new land developments and new construction or in cases of other properties affected by such changes. As time passes, estimating the value of new property based on distant value patterns becomes increasingly hypothetical. The relationship of those values to current market circumstances, which is what counts in a true *ad valorem* tax becomes ever more tenuous.

Personal property (including motor vehicles) is reassessed annually. Any deficiencies in assessment methods notwithstanding, personal property assessed values generally are more current than real property assessed values. This virtually guarantees a shift in property tax burdens from personal property to real property following a revaluation unless the city or town imposes higher assessment ratios or tax rates on personal property than real property, increases the value of homestead exemptions, or takes some other shift-avoidance action.

3.3 Tax Base

Chapter 44-3 identifies property subject to taxation. Section 44-3-1 provides that all real and personal property is subject to taxation unless otherwise specifically provided. Many chapters in the General Laws contain exceptions. Even with the Department of Administration's helpful compilation of local finance statutes, keeping track of them would be difficult. However, taxable property generally includes real property, non-manufacturing machinery and equipment, and public service company personal property.

The statutes concerning assessable real property generally are not problematic. A possibly problematic section is 34-17-1 which defines a factory equipment as real estate when it is owned by

the owner of the factory. This could create a situation in a town that applies differential tax rates to commercial real property and to personal property in which identical pieces of equipment are taxed different amounts for no discernible policy objective.

Rhode Island is in the majority of states that tax some forms of tangible personal property. As with other states, the personal property tax base gradually is eroding through exemptions (section 9). Nevertheless as previously mentioned, personal property constitutes a greater portion of Rhode Island's property tax base than is typical, despite generally lax assessment procedures (section 8). Taxable personal property is defined as "all goods, chattels, and effects, wherever they may be, all ships or vessels, at home or abroad, except as are exempt" (' 44-3-2). Section 44-3-2.1 exempts intangible personal property. As previously mentioned, a number of special provisions are scattered throughout the statutes, and recodification of these statutes could improve administration. Section 44-5-25 pertains to the assessment of vessels engaged in foreign commerce. Section 44-5-25.1 pertains to the assessment of houseboats (they are to be taxed as personal property). Other machinery, tools and apparatus not falling under the definition of factory equipment in ' 34-17-1 are defined as personal property assessable under chapter 4 of title 44 (' 34-17-2). Chapter 44-34 governs the excise tax on registered motor vehicles and trailers (see below). In summary, taxable personal property in Rhode Island currently includes business personal property except that used by manufacturers (municipalities may exempt wholesale and retail inventories, as noted below).

Utilities. As is typical in other states, utility property is assessable in Rhode Island. Although common in New England, the unit of assessment is not the operating entity, as is generally recommended. Instead, each parcel of real estate constitutes a separate unit of assessment. Each public service corporation's personal property holding in each city or town also constitutes a unit of assessment. As also is common in New England but not elsewhere, local assessors are responsible for valuation rather than state officials. (See section 8.2.)

Motor Vehicles. As previously mentioned, certain motor vehicles are subject to an ad valorem excise tax. Consequently, taxation and motor vehicle registration are inter-linked. The excise tax

distinction apparently allows municipalities to tax motor vehicles more heavily than other real and personal property. Five municipalities assess motor vehicles at a higher ratio of value. Nine apply a higher tax rate. One applies a higher ratio *and* a higher tax rate. As with other forms of personal property, reassessments occur annually rather than every ten years. As discussed further in section 8.3, the combination of discriminatory taxation, a cumbersome statutory assessment procedure, and the mobility of motor vehicles combines to make motor vehicle assessment problematic.

3.4 Taxpayer Reporting Requirements

Property tax laws commonly specify taxpayer reporting requirements designed to ensure that property tax administrators possess the information needed to carry out their legal responsibilities. The laws also should provide adequate sanctions to enforce compliance. At the same time, taxpayer compliance costs should be reasonable (kept to a minimum). Matters typically covered include the right to enter properties for inspection purposes and the disclosure of personal property holdings, - sales prices and terms, and rental property income and expenses.

Notice of Intent To Bring in Account. Among the more archaic and confusing sections of law is section 44-5-15. It seems to envisage that a board of assessors would meet to make assessments based on Accounts[®] filed by taxpayers. In preparation for this, each local government is required to post and publish in a local newspaper at least once a week for three weeks a notice of this meeting and the requirement that taxpayers bring in an account of their property holdings in the town or file a notice of their intent to bring in an account. Such notices of intent are to be filed by January 31st, with the account then brought in between March 1st and March 15th.

The meeting requirement seemingly is largely ignored by assessors. Since cities and towns have similar assessment calendars, the section requires redundant advertising. The requirement that taxpayers bring in an account is selectively enforced, with its use aimed primarily at personal property and larger taxpayers.

The aim of the notice is to require owners of personal property to report, but the law pertains to real as well as personal property. The assessor through the reassessment process and receipt of copies of

building permits should have an adequate record of real property. Therefore, reporting on real property is extra work for the taxpayer and serves little purpose to the assessor. This is unnecessary paperwork for everyone. Moreover, the requirement that the taxpayer declare the value of real property annually amounts to an attempt at entrapment.

A significant piece of the current pending case of *Wickes Asset Management Inc. v. Neil Dupuis* involves this section of the law. Regardless of the outcome of this case, this particular section needs attention.

Manufacturers= Reporting Forms. Section 44-5-38 requires manufacturers to file an inventory of their machinery and equipment on a state-prescribed and furnished form. Basically, this requirement is not being met. A few assessors have developed reporting forms that segregate manufacturers= manufacturing machinery and equipment. As discussed in section 8, some assessors have developed a model personal property reporting form, but this form does not provide for disclosure of manufacturing machinery and equipment.

Sale Price Data and Rental Property Income and Expense Data. As discussed in section 4, Rhode Island does not mandate buyers and sellers to disclose the price and terms of real property sales. Nor does the law require the disclosure of rental property incomes and expenses.

3.5 Administrative Procedures

As indicated earlier, a significant part of Rhode Island property tax law is procedural. A widespread complaint, however, was that the law lacks teeth.⁶ Such things as filing requirements and dates, despite their specificity in law, are viewed as optional or flexible.

Filing Dates. With the exception of the date for filing the assessment roll, some assessors treat statutory filing deadlines flexibly. This may be because the deadlines are unworkable. However, it can confuse taxpayers with business locations in several cities and towns.

Sanctions and Penalties. Assessors frequently complained about their inability to obtain compliance from delinquent and non-responding taxpayers. They evidenced a high degree of frustration and felt hamstrung in their efforts to meet their responsibilities. While many instances were pointed out, two are most notable. First, assessors faced with a taxpayer=s failure to bring in an account oftentimes artificially inflated the existing personal property assessment in order to obtain a response from the taxpayer. While understandable under the circumstances, a better system needs to be in place to obtain compliance with the reporting requirements. (See section 8.)

Second, assessors frequently pointed out the ten-year requirement for city and town reassessment, with section 44-5-11 requiring certification in writing to the Department of Administration of their proposed schedule. They then pointed out that failure to do so carried no risk or penalty. They would like to see the date for reassessment be taken seriously and provision made for penalties for failure to do so. See section 4.

The Department of Administration similarly had no recourse against assessors not providing information timely or in the format desired. Assessors were fully aware of this and sometimes gave information required by the State a low priority.

3.6 Recommendations

Recommendation 3-1. Recodify Rhode Island property tax law.

The Rhode Island legal framework provides numerous opportunities for improvement. Later sections of this report contain most of our legislative recommendations. However, the legislative framework for property taxation in Rhode Island would benefit from recodification. Statutes should be better organized. Redundant language should be eliminated. Archaic provisions should be updated. Laws no longer relevant should be repealed. Those laws in which significant departures in common practice occur should be amended to recognize existing reality. Those sections subject to the most differences in opinion should be clarified in their meaning and intent.

Recodification could be done in stages. The first stage could be to rewrite and reorganize existing property tax laws to improve their clarity but not to change the underlying policies. Redundant language and clearly obsolete provisions could be deleted. During this exercise, policy issues could be flagged for consideration later. The Illinois Department of Revenue recently used this approach. The bulk of the work was done by a voluntary committee, although an editor and legislative expert were hired temporarily.

4. State Supervision

As previously indicated, states have a wide range of choices in the role they choose to play in the assessment function. Rhode Island has chosen to have the state play a minor role. This role has declined over time as a number of state statutes either have fallen into reduced use or were never acted upon, including assessor training; information on current use values of farmland; micro-computers and software support; and certification of revaluation contractors.

Section 4 compares Rhode Island's role in property tax administration with the general model discussed in section 1.2.5. Section 4.1 deals with supervision generally. Section 4.2 reviews the ratio studies currently made by the Department of Administration. Section 4.3 examines the Department's supervisory capabilities in the light of our recommendations.

4.1 General Supervision

4.1.1 Overview

The agency most responsible for assessment supervision in Rhode Island is the Department of Administration. The Department's main duties are spelled out in title 42 of the General Laws of Rhode Island. They include equalization. The Department also is responsible for monitoring compliance with limits on tax levy and rate increases under section 44-5-2 and chapter 44-35, which was outside the scope of our study.

The Department's responsibilities largely are delegated to the Office of Municipal Affairs (OMA) in the Division of Planning. The OMA has established a tax equalization section, whose chief functions are reviewed in section 4.2. Other state-level property tax supervisory responsibilities largely are outside the scope of responsibility of this section.

4.1.2 Standards and Specifications

The Rhode Island property tax system embodies few specific standards and specifications. Aside from statutes, there seems to be a tradition of not putting requirements or recommendations in

writing. For example, there are no written instructions for processing sales abstract cards. There is no current assessor=s manual.

Standard Forms. Prescribing and furnishing standard forms is a common supervisory responsibility. The Department has a number of largely ignored responsibilities in this area, such as standard personal property declaration forms. One would also expect state-developed exemption applications. States also commonly review locally developed forms for legal sufficiency.

Regulation of Revaluation Contractors. Section 44-5-11.1 requires the Department to Acertify@ revaluation contractors and their personnel. Sections 44-5-48 and 44-5-49 contain similar requirements. Section 44-5-50 requires municipalities to submit copies of revaluation contracts to the Department. The apparent purpose of these laws is to ensure that only qualified people conduct revaluations. As another example of a toothless law, section 44-5-11.1(d) requires the Director of the Department to Apromulgate such rules and regulations as are necessary to carry out the purposes of this section.@ This has not been done, and in any event, the law contains no sanctions. In reality the Department makes a list of contractors available to assessors. The assessors already know all the contractors doing business in Rhode Island and most have quite definite opinions about their various qualifications.

4.1.3 Technical Assistance

In addition to the specific responsibilities discussed below, the Office of Municipal Affairs provides other assistance services. The Tax Equalization Section attempts to provide factual answers to the inquiries it receives from many sources. The Office publishes the compilation of laws related to local finance. It compiles useful information on assessment ratios, tax rates, and exemptions. It publishes the sales book mentioned in section 4.2. The Office also provides support services to the Vehicle Valuation Commission.

Technology Grants. Currently under 44-5-11.4, "the director of the Department of Administration may establish a local grant-in-aid program whereby cities and towns may purchase microcomputers

to be used for property tax administration. The director shall also cause to be prepared and distributed to all cities and towns that participate in the grant-in-aid program a uniform software application program which would adopt current state of the art uses in property tax administration." This law is now over ten years old has never been implemented. It has caused an erosion of confidence in the state by cities and towns and has done more harm than good. An unfilled promise is worse than no promise at all.

Training and Certification. Section 44-5-11.3 requires the Department to cooperate with the Rhode Island Association of Assessing Officers in holding an annual training institute, which it does, largely by lending its name. However, assessors frequently cited a need for additional training. We concur.

The Rhode Island certification program represents a good beginning. Its scope is quite basic. Participation is voluntary, although we were pleased to note that at least seventeen cities and towns had an assessor with the Rhode Island Certified Assessor (RICA) designation, and four other municipalities had other appraisal designations.

Farm, Forest, and Open Space Land Values. Section 44-27-8 requires the annual publication of information on farm, forest, and open space land values. This is not done, as no agency is responsible for developing or monitoring such values.

4.1.4 Monitoring and Analysis

The chief focus of the Department of Administration is the distribution of state aid, which requires it to monitor aspects of local property tax administration. The Department makes the ratio studies evaluated in section 4.2. As previously indicated, it verifies that tax levies and rates comply with limits. In conjunction with these activities, it obtains copies of assessment rolls. It receives copies of revaluation contracts.

It publishes an annual report on local government finances and tax equalization, although this receives a low priority, and the last such report published was for the year 1993. The Office of Municipal Affairs has published compilations of elderly and veterans= exemptions. It publishes a handy annual directory of city and town officials.

The Department has the power to require local officials to provide the information it needs to carry out its functions. In particular, cities and towns are required to send sales abstract forms to the Department within sixty days of deeds being recorded.

4.1.5 Enforcement

The State has virtually no powers to compel local governments to comply with the law. However, local tax officials who neglect their duty are subject to imprisonment of not more than one year or a fine of not more than \$500 (44-2-3).

4.1.6 Assessors= Needs

Given the possible roles that a state can play in property tax administration, Rhode Island's has been fairly small. We queried assessors about the proper role of the state. What became immediately evident is the very low expectations assessors have of the state. This low expectation level is coupled with significant distrust. Assessors did not have problems with any individual; in fact, they were complimentary of the staff of the Tax Equalization Section. Instead, their problems were with the collective actions or non-actions at the state level. Frequently cited were promises and commitments made and not fulfilled or withdrawn.

Nevertheless, assessors almost universally would like more state involvement and participation. Their comments tended to be general rather than targeted. Their comments were spread nearly uniformly among technical assistance, standards and specifications, and enforcement, with fewer comments involving a greater state administrative role.

Within the technical assistance area, assessors expressed a need for:

- X More courses and seminars
- X An updated assessor's manual
- X Pricing of all motor vehicles and a statewide tax rate
- X More help in solving problems
- X More information, interpretations of law, and opinions

In the standards and specifications area, the assessors cited:

- X Stronger and more detailed laws
- X Shorter span between reassessments
- X Allow assessor's to change values between revaluations in order to maintain uniformity
- X More procedures and standards
- X Standards that create uniformity
- X Reduction in differences in exemptions among cities and towns

Within the enforcement area, they cited:

- X State enforcement of revaluation by the required date
- X State ability to correct inequities and impose penalties
- X Performance based requirements in assessment process and revaluation

The administration area was not completely ignored. Some assessors suggested:

- X State takeover of administration of the motor vehicle excise tax and return revenues to cities and towns
- X Enhanced and improved role in utility valuation
- X Regionalization of assessing

What comes out of these comments is a clear sense that there is a more significant and greater role for the State in property tax administration. Small town and city assessors generally shared this view. However, there is no clear consensus about what the role of the state should be. Until the state has regained the trust of assessors, it is not likely that there will be agreement on the state's role in

property tax administration. The state by taking incremental, positive steps can regain assessor support and achieve assessment improvement.

In some ways the neighboring state of Massachusetts may provide a good model as any for Rhode Island. Massachusetts has adopted a three-year reassessment cycle. Among its responsibilities and authority, the Massachusetts Department of Revenue:

1. Establishes minimum standards of assessment performance.
2. Directs local assessors to undertake appropriate programs to achieve fair cash value assessments, including the review and approval of reassessment programs and contracts for related professional services.
3. Reviews local assessments every three years and certifies whether they meet full cash value assessment standards.
4. Ensures that cities and towns adhere to assessment standards by:
 - (a) contracting on behalf of the city or town for the necessary professional, technical, or appraisal services and deducting the cost of such services from state aid disbursements; or
 - (b) petitioning the Supreme Judicial Court to order local officials to comply with minimum assessment standards.
5. Determines qualifications of revaluation contractors.
6. Requires assessors to meet minimum qualification standards within two years of election or appointment and to meet continuing education requirements in order to remain certified.

State roles with respect to property tax administration have not been static. They have increased in many states and decreased in some. In recent years perhaps the area that has received the most attention has been standards and specifications. A number of states have initiated new programs in performance standards.

We believe Rhode Island needs to give increased attention to each of the four areas discussed: standards and specifications, technical assistance, monitoring and analysis, and enforcement. We make specific recommendations in section 4.1.7.

We assume that Rhode Island desires to maintain its tradition of strong city and town home rule. This tradition can, in fact, be improved by better defined parameters and a clearer delineation of expectations. The State's activities, whether large or small, in property tax administration need to conform to the statutes. Having some laws carried out and others ignored fosters local distrust of the State and disrespect for the statutes.

4.1.7 Recommendations

Meaning and interpretation of the law. Although the Department's *Compilation of Laws Relating to Local Finance from the General Laws of Rhode Island, as Amended* is a useful document, an almost universal complaint was the lack of adequate assistance in gaining an understanding or interpretation of the statutes. Most states with laws as general as Rhode Island's would have a body of rules and regulations and legal opinions that clarified the statutory provisions. These would be included or referenced in the legislative compilation. As things stand, Rhode Island assessors have no definitive, reliable source to turn for help. The state offers no guidelines and only limited help. City and town solicitors are often the source most turned to, but the quality of their assistance varies, and their advice may be inconsistent from jurisdiction to jurisdiction. One example cited was non-profit group homes which are taxable in one city and exempt in the adjoining city. Assessors will frequently turn to each other for legal advice. While such collaboration is desirable, it is not a good long-term solution.

Another area where assessors clearly need legal guidance is reconciling the uniformity standard with the ten-year revaluation requirement. We believe the law should be interpreted to authorize assessors to institute changes in assessments between revaluations, particularly when the change would be greater than plus or minus 10 percent. With more frequent reassessments, this need for corrective action might become a moot issue.

Recommendation 4-1. Develop the capacity to provide legal interpretations and guidance to assessors to improve the consistency with which property tax laws are executed.

The interpretations and guidance given to individual assessors should regularly be aggregated and provided to all assessors. The Department should be empowered to provide interpretations and opinions directly without first being solicited by a city or town.

Administrative timetable and sanctions.

Recommendation 4-2. Establish a committee of assessors to assist the Department review all procedural and filing dates and make recommendations for changes and additions in the law where warranted. Consistent policies for dates determined administratively should be adopted for the understanding and convenience of taxpayers.

It would also be helpful if the Department of Administration made available to assessors and taxpayers a listing of the key dates in property tax administration.

Recommendation 4-3. As with filing dates, establish a committee of assessors to review provisions where compliance is a problem and make specific recommendations for greater sanctions and penalties.

Regulation of Revaluation Contractors. As currently written and enforced, sections 44-5-11.1, 44-5-48, 44-5-49, and 44-5-50 serve little useful purpose.

Recommendation 4-4. Overhaul the regulation of revaluation contractors. Of sections 44-5-11.1, 44-5-48, 44-5-49, and 44-5-50, retain only the requirements that revaluation contractors register with the Department and that municipalities file

copies of revaluation contracts with the Department. Institute a requirement that the Department develop and maintain model revaluation and CAMA system technical specifications and requests for proposal (RFPs). Require cities and towns to submit copies of RFPs to the Department for comment.

The Department could use outside assistance in developing the model specifications and RFPs, including comments from assessors, vendors, and purchasing officials. The models should be reviewed periodically to ensure they remain relevant. The RFPs should address vendor financial strength and technical qualifications.

Cities and towns should be free to modify the model specifications and contracts. The state review should reduce the chances of serious mistakes. However, contract administration would be the responsibility of the municipality.

Training and Certification. Education requirements for Rhode Island assessors are minimal (see section 44-5-11.3). We agree with Rhode Island assessors on the need for additional education and training. We concur with the IAAO=s view that assessment personnel should possess single-property appraisal skills, mass appraisal skills, and administrative skills.

Such skills are needed to understand the valuation process, explain and defend values, monitor reappraisal work, and perform market research. In our suggested scenario of a six-year reappraisal cycle with three-year updates (recommendation 7-1), such skills would be all the more important. Municipalities with adequately trained staff will be able to perform statistical updates on their own, avoiding the need to hire contractors.

Recommendation 4-5. Enact an assessment personnel certification program that ensures that assessors= offices possess the requisite skills and design a program to fulfil training needs.

We recommend that a task force of assessors and Department personnel review IAAO=s recommendations in the light of conditions in Rhode Island, propose a certification program commensurate with the State=s needs, and design an implementation timetable. Course and testing requirements should be detailed, including optional paths to certification. The law should then be amended to reflect the new program. The legislation also should detail the consequences for failing to meet the requirements.

We suggest the strategy outlined below for assessors= offices wanting to undertake revaluations with their staffs (that is, not rely on contractors). It should be noted that the International Association of Assessing Officers (IAAO) is reorganizing some course offerings, so appropriate adjustments in this plan may need to be made.

- X All assessment personnel with valuation responsibilities should, at the earliest opportunity, take and pass the newly expanded version of *Fundamentals of Real Property Appraisal*, IAAO course 1, unless they already have equivalent education (that is, courses in appraisal principles and in mass appraisal) or requisite skills (qualification tests could be used to evaluate experience). The course provides the foundation for mass appraisal and covers the theory and techniques of the sales comparison and cost approaches to value.
- X In offices not relying on contractors, valuation personnel should take *Computer-Assisted Assessment Systems* (IAAO course 300) and *Mass Appraisal of Residential Property* (IAAO course 301) or equivalents. Desirably, they also would take *Mass Appraisal of Income-Producing Property* (IAAO course 302) and a model-building course, such as *CAMA Valuation Model Building Residential* (IAAO course 305) and *CAMA Valuation Model Building Commercial and Industrial* (IAAO course 307).
- X Valuation personnel responsible for appraising apartments and commercial property should take and pass *Income Approach to Valuation* (IAAO course 2) or an equivalent. Such a course will ensure they have basic understanding of the income approach to value. (Persons who already have taken such a course need not retake it.)

- X Personal property specialists should take IAAO course 5, *Assessment of Personal Property*, or an equivalent.
- X Valuation personnel also should take the IAAO workshop on *Standards of Practice and Professional Ethics* or an equivalent.
- X Assessors and supervisory personnel should take *Assessment Administration* (course 4).
- X Support staff would benefit from *Introduction to Residential Property Appraisal* (IAAO course A) or an equivalent.
- X All personnel should take a course on Rhode Island property tax law.
- X Personnel involved in screening sales should, at an early opportunity, take IAAO workshop 612, *Fundamentals of Assessment Ratio Studies*, or an equivalent.

Ongoing education and conference attendance should be encouraged to expand knowledge. Courses offered by the Appraisal Institute and other appraisal associations are highly regarded and should be evaluated as alternatives and supplementary offerings.

The small size of Rhode Island presents logistical challenges. It may not be practical to offer some courses in-state. Efforts could be made to develop a multi-state cooperative education program.

Some states vary certification requirements with size of the jurisdiction or nature of the assessment task. Thus not every assessor needs to possess the same level of skills. Consideration also should be given to the extent to which contractor personnel should be certified.

Courses offered by IAAO and other appraisal organizations are not inexpensive. However, the costs of ignorance are substantial. We believe employers should bear the costs of training initially. Jurisdictions can avoid these costs by recruiting people who already possess the requisite qualifications, although they will have to offer competitive salaries.

Several benefits would accrue from greater technical qualifications. First, the general credibility of assessment personnel would be enhanced. This would translate into increased acceptance of their work, particularly in appeals.

Technology Grants.

Recommendation 4-6. Repeal the law on technology grants (44-5-11.4).

Should funding ever become available, it can occur through the normal budgetary processes, with statutory language later, if desired.

Farm, Forest, and Open Space Values.

Recommendation 4-7. Either repeal chapter 44-27, Taxation of Farm, Forest, and Open Space Land, and the related portion of 44-5-12 or establish a coherent, defensible use-value assessment program.

If chapter 44-27 (Taxation of Farm, Forest, and Open Space Land) is not repealed, the Department of Administration in conjunction with the Department of Environmental Management should develop a system for determining the taxable value of farm, forest, and open space land. Options include establishment of a consistent statewide set of land values to be used by all assessors for eligible land. A simple formula-driven approach, updatable annually, would be the least expensive and produce the most stability in land values. Such an approach would serve as a surrogate for actual current use values which are difficult to determine and which fluctuate from year to year. City and town assessors should be required to value qualifying land on the basis of the system.

4.2 Ratio Studies

The Office of Municipal Affairs (OMA) makes two ratio studies annually: one for information purposes and one for school aid distribution. Section 4.2.1 discusses sales processing

and general matters pertaining to both studies. Section 4.2.2 addresses the former study, termed the "sales ratio study," and section 4.2.3 focuses on the school aid study. Section 4.2.4 provides our critique and recommendations.

4.2.1 Sales Processing

Assessors submit sales and assessment information for ratio studies on sales abstract cards (form D-1). The form is in two parts. Assessors submit the original or front copy and retain the back copy. By statute, the forms are to be submitted within 60 days of the recording of a real estate deed or conveyance. The form provides for information on buyer and seller, type of property, sale date and amount, type of deed, conditions of sale, and assessed value. Assessors take the sales information from recorded deeds. Rhode Island has a real estate transfer tax (\$280 per \$100,000), but there is no full disclosure statute or real estate transfer affidavit. Few assessors attempt to confirm or investigate sales.

Determining the proper value to place on the sales abstract cards in revaluation years is problematic. In general, assessors submit prior year values for sales occurring through the first half of the year and sales from the current year for sales occurring in the second half of the year.

The State keys only sales considered to be valid arm's length transfers. These include warranty and bargain-and-sale deeds for which the assessor has checked none of the conditions indicating a non-arm's-length sale, partially complete structures, excess personal property, unusual financing, or the like. The OMA checks sales that have extreme ratios or otherwise appear suspect with the municipalities (those with ratios of less than 0.20 or greater than 4.00 are automatically excluded from the school aid study). Recently the State has processed some 12,000 to 13,000 valid sales per year.

The State annually publishes sales deemed valid in a "sales book." Each edition has the most recent year of sales. The book is sold for \$50 and is also available on PC diskette.

4.2.2 Sales Ratio Study

This study is prepared for information purposes only. It provides feedback on the level and uniformity of assessments. The study is prepared as soon as possible after sales from the previous year have been collected and processed. The 1994 study was completed in late 1995. Only one year=s sales are analyzed.

The study reports the number of sales in each class, the median sale price, and the corresponding median assessed value of the same parcels. The following statistics are reported for classes of property with at least five sales: weighted mean (aggregate) ratio, median ratio, mean ratio, the average deviation from the mean, the index of inequality or "Russell" index (average deviation divided by the mean), the coefficient of dispersion (average deviation from the median divided by the median), the price-related differential (mean divided by the weighted mean), the total assessed value, and the total of the sales prices. If there are fewer than five sales, "insufficient data" is printed.

4.2.3 School Aid Study

Until recently, the State of Rhode Island distributed some \$400 million in state aid to education annually. The amount allocated to each municipality varies with appropriation levels and estimates of property wealth per student calculated in part in the State's school aid study. In general, the more wealth per student, the less aid, and vice versa. (Because of budget problems, current appropriations have been greatly reduced).

The school aid study includes only property classes containing at least 80 percent of a municipality's assessed value. The study always includes motor vehicles, which are automatically assigned a ratio of 100 percent. If a municipality had, say 70 percent of its value in single-family residential property, 15 percent in commercial, and 8 percent in motor vehicles, the OMA would study those classes only. If 75 percent of value were in single-family residential, the OMA would study only it and motor vehicles, since together they meet the 80 percent threshold.

In contrast to the sales ratio study, the school aid study uses three years of sales, namely the three years immediately preceding the assessment year. The study also supplements sales with appraisals. Properties to be appraised are drawn randomly according to an algorithm that seeks to cover all study classes and ensure minimum sample size of ten (sales plus appraisals). However, samples are assigned to property classes with many sales as well as those with few sales. For example, in the 1993 study, 15-25 single-family appraisals were made in all municipalities, even though many had several hundred sales.

The appraised properties are drawn randomly from local assessment rolls. The State's appraisers obtain property records for these properties from the municipalities. Data are verified in the field, but buildings ordinarily are not remeasured or relisted. Property characteristics are recorded on the State's property record cards, a photograph is taken, and the data are entered into a PC program.

Appraisals are based on the cost approach. Marshall & Swift costs are used for commercial properties. The OMA attempts to ensure that both residential and commercial base rates reflect the local market. Appraisers develop land valuation tables locally, primarily from vacant land sales. The studies report results for one, two, and three years of sales. In each case, results for sales and appraisals are reported both separately and together. The equalization director reviews the results and determines which is most supportable. Consideration is given to stability and consistency with the previous year's results. Any unusual changes are researched. The studies use the weighted mean assessment ratio (sum of assessments divided by the sum of sales and/or appraisals). Measures of dispersion or confidence intervals are not reported.

Partly because of the time required to complete appraisals, the school aid studies are not completed until well after the assessment date. For example, the 1994 study, based on an assessment date of 12-31-93, uses sales for the three year period, 1991 through 1993. However, the study is not completed and published until approximately August, 1996. The study will be used to determine school aid for fiscal 1998.

The use of historical sales causes a logistical complication in revaluation years, since assessed values submitted on abstract cards are largely outdated. In this case, staff must look up new assessments manually. Also, physical changes to properties may have occurred between the time of sale and revaluation date.

Software for the school aid study was developed in the 1960s and 1970s and is not documented. Programmers are able to run but not explain the algorithms.

4.2.4 Critique and Recommendations

Sales Processing and Data Exchange. The reliability of any sales ratio study depends on the accuracy of data used in the study. The OMA's studies depend on data received on sales abstract cards from the cities. There are no written guidelines for completing the cards, and assessors disagree on which sales should be submitted. The OMA can not verify that all sales are submitted or that sales have been properly screened or reported. There is little, if anything, to prevent assessors from selectively screening and reporting sales. In addition, sales often are not submitted in a timely manner.

The State publishes a sale book containing the previous years sales. However, timely publication depends on timely receipt of data from all municipalities. The data are limited in scope and cover only the previous year. The data are also sold in PC format but are in the form of a report rather than a data base file.

Recommendation 4-8. Automate the submission of sales data.

Regardless of whether recommendation 6-3 (adoption of a real estate transfer declaration) is adopted, the State should pursue methods of automating the transfer of sales data. Currently, when a deed occurs, the assessor's office keys the transfer information and completes the sales abstract card. A copy of the abstract card is filed and the original is sent to the State, where the data are again keyed. As an alternative, the OMA could provide for the routine transmittal of sales data in standardized,

electronic format (e.g., ASCII or spreadsheet format). This would permit assessors to create an automated sales file in lieu of completing the sales abstract and save the State from rekeying the data. It would also ensure that the two data bases were consistent. Moreover, if the data were submitted electronically, it may be feasible to add additional information at negligible cost, such as size and year built. (One municipality already provides sales data to the state in electronic format.)

Recommendation 4-9. Maintain a sales data bank in PC format.

The State currently keys data from the sales abstracts to its mainframe computer. After completion of processing, a sales book is prepared and sold to interested parties. The data are also downloaded to PC format for sale on diskette. The sales book can be viewed as a forerunner of a data bank that would be distributed on diskette to assessors or, for a fee, to other parties. The data bank would be available in a standard PC format, so that users could access it directly or convert it to their preferred PC software. The file could then, for example, be searched by type of property for comparable sales. The incorporation of key property characteristics, such as size and age, would make the data base particularly valuable. It may also be possible to provide on-line (e.g., Internet) access to the file. Unlike the current sales book, the data bank could well include more than one year of sales.

Recommendation 4-10. Automate the submission of assessment roll data.

In parallel with the automated submission of sales data (recommendation 4-8), a strategy for automating the transmission of roll data should be developed. This would require cities and towns to send files of specified data elements in a standard format. The State should develop its specifications in conjunction with assessors and system vendors. At least initially, the submission of paper copies of rolls should be continued.

Recommendation 4-11. Consider separating the submittal of sales and assessment data.

As noted, assessors currently provide assessed values on sales abstract cards. This creates problems in revaluation years, since new values are not yet available. Several states have addressed this problem by having assessors submit assessment files for all properties at key points in the assessment cycle. Assessed values are then matched against sales files based on parcel number. This permits sales data to be worked separately and then matched electronically against current values when available from the municipality. It also provides a mechanism for providing key property characteristics data.

In Rhode Island, we recommend that assessed values continue to be provided on sales abstract cards (or an electronic counterpart), while the State phases in the routine transfer of assessment files. When revaluations occur, new values could be read from the assessment files (provided a parcel match is found). The files could also be used to determine aggregate assessed values by class, track growth in assessed values, help answer inquiries requiring statewide assessment information (e.g., the impact of eliminating or instituting an exemption), and provide data on key property characteristics for use, for example, in the recommended data bank.

Sales Ratio Study. The sales ratio study reports a full battery of assessment-ratio statistics for property classes with at least five sales. This information is useful but one-dimensional and dry. Most property classes simply report the message "insufficient data." The study is not documented.

Recommendation 4-12. Rewrite the sales ratio study using PC software.

Rewriting this study would appear an easy manner. The statistics are not difficult and the format is simple. Rewriting the system in PC format would make future changes much simpler and afford the opportunity to introduce a number of enhancements.

Recommendation 4-13. Improve the sales ratio system.

We suggest several enhancements. First, we recommend that the average deviation and Russell index be dropped. Users should focus on the more commonly used coefficient of dispersion. Second, we recommend that the results be reported at several levels: by municipality, by major use categories, and by property class (currently the only reporting level). Reporting results by major property groups would permit the use of information which is now often unreported because of the minimum of five sales is not met. For example, the industrial and two commercial classes could be combined into a "commercial and industrial" category. Third, more than one year of sales should be considered, at least for categories other than single-family residential. We note that in the equalization study, results are reported for one, two, and three years of sales. Finally, provided the system is converted to PC format, consideration should be given to the incorporation of some graphics to enhance presentation and readability. For example, medians and CODs by major property class could be displayed in a bar chart.

Recommendation 4-14. Provide documentation and a user's manual.

There should be a user's manual documenting the system and how to interpret the statistics. Examples using five to ten sample parcels would be particularly helpful. Although PC programs can, to a large extent, be self-documenting, there should also be a narrative overview and flow chart outlining the basic structure of the program. This would facilitate future trouble-shooting and enhancements.

School Aid Study. The school aid study fulfills its basic charge of determining the true market value of property in the various municipalities. However, the study has a number of shortcomings that should be addressed. These include the determination of the property classes studied, the allocation of appraisals, appraisal methods, timing of the studies, statistical analysis and reporting, and software limitations.

Recommendation 4-15. Redefine property categories used in the school aid study.

As discussed, the study covers property classes comprising at least 80 percent of assessed value. However, motor vehicles are automatically included and they are assumed to be at 100 percent. Thus, only 70 percent of property may actually be studied. Single-family residential property is the only property class (besides motor vehicles) that is universally included. Because of the many classes, there is a bias against the inclusion of other property types. For example, condominiums are less likely to be studied than detached single-family properties and apartments are less likely to be studied than 2-5 family properties. This creates problems in study results, since certain property types, most notably motor vehicles and single-family, are over-represented and most others are under-represented. This is of particular concern because of the long assessment cycle in Rhode Island, in which assessment levels for different property types can differ widely.

We recommend that the property classes be aggregated into several broad categories as mentioned above in our discussion of the sales ratio study. For example, the following broad classes could be defined: (1) single-family residential, including condominiums and estate homes; (2) multi-family, including apartments; (3) commercial and industrial; (4) vacant land; and (5) seasonal and other. Once such categories are determined, we recommend that each be studied, provided it constitutes a "significant" percentage of total value (say, 5 percent or more). This would provide a considerably more representative result than current procedure.

Finally, we question the automatic inclusion of automobiles in the study at 100 percent. We note that other personal property is excluded and assume that automobiles could be as well. Thus the inclusion of automobiles is a policy decision that tends to increase wealth estimates for municipalities that have relatively high percentages of value in automobiles, and vice versa. We suggest that this policy issue be considered.

Recommendation 4-16. Consider reallocating appraisals to categories with fewer sales.

Given available staff, about 2,000 randomly selected unsold parcels are appraised and included in the school aid studies. As mentioned, the sampling algorithm assigns many of these to classes with

adequate sales. For example, in the 1993 study, 815 of 1,908 appraisals (42.7 percent) involved single-family residences. However, there are generally adequate sales in this property class, particularly over a two or three year period. We believe that available appraisal resources would be better assigned to other classes, particularly commercial and industrial.

We understand that the State must be concerned that sales submitted by assessors for single-family residential properties (like any property class) may be selectively screened and thus not representative. However, this potential problem has not been systematically studied and, in any event, could be approached in other ways. For example, if assessment files were obtained (recommendation 4-10), value changes for sold and unsold properties could be compared (also see recommendation 4-19 with respect to using sales after the appraisal date). Thus, except for any municipalities with a history of selective sales screening, as indicated by significant differences in assessment levels based on sales versus appraisals, we recommend that the State begin shifting appraisal resources from residential to non-residential properties. In general, samples should be chosen objectively so as to provide minimum sample sizes where sales are lacking and reduce margins of error to acceptable levels.

Recommendation 4-17. Upgrade appraisal methods.

As noted, appraisal methods rely largely on the cost approach. The cost approach has universal applicability but is generally not the preferred method. Usually the sales comparison approach is preferred for residential properties and the income approach for commercial properties. This is not to say that the cost approach does not have an important role. The preferred approach for any individual property will depend on the nature of the property and available data. We suggest, however, that the OMA move toward greater use and reliance, where appropriate, on the sales comparison and income approaches. Of course, this will probably require additional training, particularly in the area of the income approach.

Recommendation 4-18. Improve appraisal documentation.

The OMA currently regards appraisals as internal working documents that are not subject to external review. We believe a climate of openness is called for, given the importance of the school aid study in the statutory scheme for distributing state aid. An open system would imply that each observation in the school aid study would be subject to scrutiny and challenge, as is common in similar studies in other states. This would imply that appraisals should be adequately documented, which would be in keeping with professional standards.

Recommendation 4-19. Hire an expert commercial appraiser.

The above two recommendations require that additional time and attention be paid to commercial and industrial properties, using several valuation techniques. This will require the collection and analysis of income data and the development of gross rent multipliers, overall rates, and other income benchmarks (also see recommendation 6-5). This function would be most efficiently performed by a commercial property appraiser proficient in the income approach.

Recommendation 4-20. Improve the timing of the school aid studies.

The study used to allocate school aid for fiscal 1997 will use assessments determined as of 12-31-92 and 1990-1992 sales. The study was completed in the latter part of 1995. We believe these time lags are excessive. They arise in part because of the need to perform appraisals and the lag between study completion and determination of funding allocations by education officials. The following may help to reduce the lag and improve the study in other ways:

1. Submit data electronically. This would permit quicker turnarounds and allow the OMA to work on sales review before final values are received.
2. Use sales after the appraisal date. For example, the 1993 study (appraisal date of 12-31-92) could use 1991-1993 rather than 1990-1992 sales, since it is not completed until approximately August, 1994. The use of some sales after the appraisal date would also provide a

check against selective sales screening. It would also reduce the lag between assessments and sales, during which time physical changes may occur.

3. Begin appraisals earlier. It may also be possible to draw samples and begin appraisals earlier.

In any case, we believe the lag between the assessment date and completion of the study can be reduced by one year. We cannot comment on the lag between study completion and certification of funding.

Recommendation 4-21. Improve statistical analysis and reporting.

The school aid studies use and report only the weighted mean. No measures of reliability are reported. For small samples it is well known that the weighted mean can be highly influenced by a single sample. We recommend that the formula be redesigned to either use the median as a matter of course or substitute the median when samples are small or the margin of error for the weighted mean is wide. This would enhance accuracy and stability. We also recommend that measures of variability and confidence intervals be reported in order to quantify the precision of the resulting estimates. This will aid in the review of results and final determinations.

While the current attention paid to defensible, consistent figures is laudable, we believe that it is not proper to place so much weight on judgment. As a general matter, combined results (sales plus appraisals) should be used unless a problem of selective sales screening or appraisal has been identified. A decision should also be made regarding the number of years of sales to use. We believe that, in order to obtain reliable samples and enhance stability, that three years of sales would generally be preferred, except possibly for single-family residential property, where sales are more plentiful. If three years were to be generally used, time-adjustment should be considered.

Recommendation 4-22. Standardize reporting of exemptions and frozen assessments.

If equalized values are to be consistent and accurate, assessors must report exemptions and frozen assessments consistently, both on sales abstract cards and on assessment rolls submitted to the OMA. In general, values used in calculations should be before partial exemptions, rebates, freezes, or other such adjustments. We believe the OMA has adopted a policy consistent with this view, but written guidelines would be helpful. The OMA should ensure that municipalities are following such guidelines.

Recommendation 4-23. Rewrite the school aid study software.

The school aid study was written for a mainframe computer in the 1960s and 1970s. The program is not documented. Current programmers were not involved and can not explain it. The entire program should be rewritten and documented. PC software should be considered as an option. As a practical matter, the current program cannot be redesigned or modified. It should be discarded and replaced with a modern, improved version.

4.3 State Capabilities

4.3.1 Evaluation

Our evaluation of the State's ability to play a more helpful and direct role in property tax administration was confined chiefly to the resources available to the Tax Equalization Section. The staff of the Section consists of a supervisor and three appraisers. In addition, the section supervisor draws on other staff in the Office of Municipal Affairs when the need arises. Others in the OMA assess telecommunications companies and do other functions. Sales ratio data are keyed by the State's data processing service. Unfortunately, detailed budget information was not readily available.

A benchmark used to evaluate the overall adequacy of a state supervisory agency's staffing is the ratio of jurisdictions supervised per staff member. This ratio for Rhode Island currently is 9.75. The most recent source of comparative data on assessment supervision is the 1992 edition of IAAO's *Assessment Administration Practices in the U.S. and Canada*. The average ratio of thirty-eight states

for which data were available was 6.19 jurisdictions per staff member (the median of four New England states, with their large number of small assessment districts, was 11.7). This relationship lends support to the notion that it should be feasible to strengthen the State=s supervisory capability.

The same IAAO survey revealed that funds budgeted for assessment supervision in Rhode Island are significantly below national averages, as the figures in table 4-1 reveal.

Table 4-1. Comparative Data on Expenditures for Assessment Supervision:
Rhode Island and Selected States, 1992

State	Supervisory Budget	
	as a percent of total property taxes	per jurisdiction
Maine	0.131	\$2,439
Massachusetts	0.031	4,274
New Hampshire	0.030	1,534
Rhode Island	0.022	5,128
Vermont	0.249	5,179
38 State Average	0.323	57,824

Note: Data for Connecticut were not available.

These figures obviously are colored by differences among the states in the range of supervisory activities, the level of property taxation, and the number of assessing jurisdictions. Nevertheless, they indicate that expenditures for assessment supervision in Rhode Island are comparatively low. One benchmark sometimes used states that supervisory expenditures should approximate 0.1 percent of total property tax collections. This would suggest that Rhode Island should spend about \$1 million on assessment supervision.

Given the low level of resources likely to be allocated to assessment supervision in Rhode Island, we think it wiser to perform a few programs well rather than spread a small amount of resources thinly.

4.3.2 Recommendations

Recommendation 4-24. Increase the property tax supervisory staff in the Department of Administration.

We believe the Tax Equalization Section (or successor unit) should have a full-time staff of about ten. The supervisor would be assisted by a secretary or administrative assistant, who should have editorial skills. Under the supervisor would be two teams: a team of about five largely devoted to ratio studies and a team of about three devoted to assessor support. The ratio study team would be headed by a statistical analyst, who would be supported by about four appraisers. The support team would be headed by an appraiser with mass appraisal skills and experience in an assessor's office. The team leader would be supported by an appraisal/analyst. The Section could have a lawyer assigned to it, or it could draw upon a property tax specialist in the Attorney General's Department. A premium should be placed on individuals with good communications skills, including writing skills. If our utility assessment recommendation is accepted, the Section also will need an utility appraiser.

Recommendation 4-25. Increase assistance to assessors.

The Department's technical assistance program could build upon the current service of providing telephone advice. Issues of general interest could be dealt with in bulletins. As appropriate, authoritative positions could be developed in consultation with assessors, taxpayer representatives, and other interested parties. A goal should be the develop of an up-to-date assessor's manual. Also see recommendation 4-1 concerning legal interpretations.

5. Local Management Practices and Resources

5.1 Introduction

Assessment tasks cannot be accomplished without sufficient resources—chiefly human and technological. Human resources may be hired or contracted for. Humans' abilities depend on their education, training, and experience. Adequate computer support boosts productivity. Budgets express available resources in monetary terms. The resources provided for assessment administration are a reflection of the political support for accurate and equitable assessments. Management practices affect how well available resources are used.

5.2 Management Practices

Regardless of the size of their districts or the amount of assessment work they do themselves, assessors must manage work to complete their assigned tasks. Equally true, assessors are held accountable for their performance. As with other managers, assessors should plan, budget, organize, control, and evaluate work. Work should be completed on time, standards of appraisal accuracy should be maintained, and resources should be used wisely.

Management practices in Rhode Island assessors' offices generally reflect the small size of assessment districts. Some cities and towns seem to place greater emphasis on professional management than others. As would be expected, some assessors clearly have stronger management skills than others. Organizational arrangements are informal and flexible. Communications usually are oral. There is little evidence of strategic or long-range planning. Object classification rather than program budgeting is stressed. In this setting, the absence of formal management tools and structures is not fatal.

5.3 Work Loads

The legal framework dictates responsibilities and the size of the assessment district. These two factors influence work loads. Other factors affecting work loads include market conditions and real estate development patterns and trends. Work load factors, along with the importance of the

property tax to local government, influence the resources likely to be placed at the assessor's disposal.

Work load statistics express legal requirements in numerical terms so that resource requirements and efficiency measures can be estimated. We considered (a) the numbers of real properties in major property types that must be assessed; (b) the numbers and types of personal property accounts; and (c) the numbers of building permits, real property transfer documents, and the like that must be processed annually by the assessors. The State compiles some statistics in the first two areas, and we used our survey to gather information in the last area. Unfortunately, data are not generally available on the number of motor vehicle assessments.

5.4 Funding Requirements

In the absence of formal studies of resource needs, benchmarks can be used to evaluate available resources. For example, expenditures for routine assessment operations should be in the range of \$10 to \$15 per parcel. Rhode Island assessors' budgets typically are in the lower end of this range. The median for 1995 was \$11.45 per parcel and for 1996, \$11.80 per parcel. Revaluations typically cost in the range of \$25 to \$60 per parcel. Again, Rhode Island is in the lower end of the range, with a median of \$35.90 per parcel.

Another commonly used benchmark is expenditures as a percentage of property tax collections. Expert opinion suggests that this ratio should be in the range of 1.3 to 1.5 percent, although actual ratios generally are closer to 1.0 percent. The median ratio of expenditures to revenues in Rhode Island is 0.4 percent, and only three of the twenty-nine municipalities for which data were available had ratios as high as 1.0 percent.

Of course, with so many variables to consider, benchmarks such as these should be used cautiously. However, we conclude that Rhode Island assessors are operating under significant resource constraints.

5.5 Human Resources

The success of any assessor=s office depends on the people who work for it. Administration of property tax laws requires in-depth knowledge. Valuation requires specialized training and experience. Frequent public contact requires Apeople skills.@ In this section we consider staff size requirements, training needs, and the things needed to attract and retain skilled staff, most notably compensation.

5.5.1 Staffing

We obtained figures on the size of the staff of thirty-two Rhode Island assessors= offices. Their staffs ranged in size from one person working part-time to nineteen full-time and one part-time positions. Twenty-seven cities and towns had full-time, Aworking@ assessors. That is, the assessor also serves as chief appraiser and office supervisor. One town had a part-time assessor. Four towns had three-member boards of assessors. Six assessors= offices were large enough to have positions categorized as supervisory. In total, there were thirty-six full-time positions and one part-time position categorized as supervisory. Seven cities and towns had one or more full-time field appraisal positions and six had part-time positions, for a total of eighteen full-time and six part-time field appraisal positions. Twenty-seven cities and towns had one or more full-time office clerical positions; two towns had one part-time position; and three assessors had no assistance whatsoever. In total there were seventy-three full-time and six part-time clerical positions. In addition there were two full-time and three part-time positions categorized as Aother.@ In summary, employment in the thirty-two assessors= offices totaled 126 full-time and twenty-nine part-time positions. The most striking feature of assessment employment in Rhode Island is the large proportion of clerical positions. Of the full-time positions, 58 percent are clerical. The number of appraisal positions is commensurately lower.

As with our evaluation of funding requirements, we used benchmarks to evaluate staffing. Although individual ratios vary considerably, the average ratio of staff size to number of parcels is remarkably consistent in three studies made by IAAO. Data from these studies provide credible guidelines to

evaluate staffing in Rhode Island assessors= offices. *Property Appraisal and Assessment Administration* (1990) stated:

One full time employee for each 2,500 parcels is typical, although this proportion varies greatly among jurisdictions. In smaller jurisdictions, the work load averages about 1,500 to 1,700 parcels per employee; in larger jurisdictions, about 3,000 to 3,500.

Assessment Practices Self-Evaluation Guide (1991) stated:

Small jurisdictions (those with fewer than 10,000 parcels) have about one full-time equivalent position for every 1,000 to 1,500 parcels. Between 10,000 and 20,000 parcels, the ratio averages about 2,500. Above 20,000 parcels, the average ranges between 1:3,000 and 1:3,500.

Table 5-1 compares parcels per employee with the IAAO guidelines. It suggests that smaller jurisdictions have inadequate staffs, while it may be possible economize on staff in the largest jurisdictions.

Table 5-1. Parcels per Employee, Rhode Island and Typical Range

Jurisdiction Size (Parcels)	Number	Rhode Island (Median)	All States (Typical Range)
Small (Fewer than 10,000)	19	2,271	1,000 to 1,500
Medium (10,000 to 20,000)	9	2,430	2,500
Large (More than 20,000)	4	2,662	3,000 to 3,500

We also examined how assessors= offices spent their time on the tasks identified in table 5-2. Table 5-2 also estimates the percentage of full-time equivalent positions (FTEs) devoted to each task in a

hypothetical typical Rhode Island assessor=s office (based on typical percentages). Such an office would have about 4.4 FTEs, assuming that the typical part-time employee worked 50 percent of the time of a full-time employee.

Table 5-2. Distribution of Staff Time in Rhode Island Assessors= Offices

Task	Percentage of Time			Required FTEs
	Minimum	Typical	Maximum	
Updating ownership records from deeds, etc.	5	18	60	0.8
Processing sales for the state's ratio study	1	6	25	0.3
Processing permits and inspecting new construction	0	16	30	0.7
Other field inspections of real property	0	8	30	0.3
Assessing motor vehicles	1	11	30	0.5
Assessing other personal property	2	7	20	0.3
Public information and taxpayer assistance	5	21	51	0.9
General administrative duties	1	11	43	0.5

Note: Typical percentages do not sum to 100 due to rounding.

The data should be used with caution for several reasons. First, the way the question was written was confusing to some assessors. Second, the underlying data were estimates of how time was spent, not accurate statistics in most instances. Nevertheless, we believe the data provide useful insights. Although motor vehicle assessment aggravated many assessors, it appears to consume comparatively little time. Of course, a high proportion of the considerable amount of time spent with

taxpayers could be on motor vehicle assessment matters. Basic maintenance tasks (updating records, processing sales, working permits, and the like) consume about 40 percent of the typical assessor=s office=s time. Desirably, more time could be devoted to real and personal property appraisal, as it is generally recommended that there should be the equivalent of one full-time appraiser for every 2,500 to 5,000 parcels.

5.5.2 Qualifications

Assessors' offices often suffer from a public perception that their personnel are ill-equipped to perform their functions well. In response to criticisms of their skills, assessing officers and their professional organizations have developed education and credentialing programs. Initially, the focus was on valuation fundamentals, but now the programs cover mass valuation and management. The Savings and Loan debacle of the 1980s provided another impetus for improving appraisers' skills and practices. In response to federal legislation, states now license fee appraisers. In addition, the appraisal profession has established the Appraisal Foundation. As previously mentioned, the foundation has two operational entities, the Appraisal Standards Board and the Appraiser Qualifications Board. They provide the standards against which many now judge appraisal practices and appraiser qualifications. Particularly influential is the ASB's Uniform Standards of Professional Appraisal Practice (USPAP). Standard 6 of USPAP covers mass appraisal.

Rhode Island law does not require assessors to possess specific qualifications. Cities and towns may impose qualifications. For example, a higher percentage of Rhode Island assessors are required to have college degrees than is typical nationally according to a 1990 IAAO salary and employment survey.

By national standards, the typical Rhode Island assessor does not possess a high level of professional qualifications, whether measured by designations or course attendance. However, virtually all of the assessors we interviewed appeared intelligent and dedicated. The absence of formal credentials should not be construed as evidence of a lack of qualifications. On the other hand, professional

credentials imply a certain level of technical proficiency and make an assessor=s opinions more credible in a valuation dispute. Some progress has been made toward professional credentials. The Rhode Island Association of Assessing Officers confers a Rhode Island Certified Assessor designation and a designation for staff.

5.5.3 Salaries

The salaries of full-time assessors in the thirty-one offices for which we had data ranged from \$25,000 to \$60,000. The median salary was \$35,900 and the mean salary was \$34,630. Field appraiser salaries ranged from \$6,300 to \$46,500, with \$32,300 being typical (the median of jurisdiction average salaries). Office clerical salaries ranged from \$10,200 to \$37,370, with \$21,667 being typical.

Table 5-3 compares current Rhode Island assessor=s salaries with updated figures from a 1990 IAAO salary survey (using a trending factor of 1.18, the change in the Consumer Price Index). It can be seen that Rhode Island salaries trail those of Connecticut and Massachusetts, with whom the state competes for professionally qualified assessment personnel. This means that the state is at a comparative disadvantage in a region where there is considerable mobility among assessors.

Table 5-3. Assessor Salary Comparisons (Means)

Jurisdiction Size Category	R.I. Jurisdic-tions in Size Category	Rhode Island	Connecticut	Massachusetts	U.S.
Under 5,000 parcels	8	\$35,607	\$34,143	\$35,031	\$29,804
5,000-10,000 parcels	6	35,773	45,457	43,260	35,676
10,000-20,000 parcels	9	36,840	57,282	48,256	37,109
20,000-50,000 parcels	4	53,875	64,622	50,630	42,676

Although Rhode Island salaries were higher than national averages in table 5-3, in the 1990 survey, the state ranked 26th among the forty-four states for which sufficient responses were received.

Rhode Island trailed its New England neighbors, as table 5-4 reveals. Rhode Island also ranked low in the part-time assessor, deputy assessor, and part-time appraiser categories. The state compared more favorably in administrative and clerical categories, as table 5-5 reveals.

Table 5-4. Average Assessors= Salaries in New England, 1990

State	Average Salary	Rank
Connecticut	\$38,854	8
Massachusetts	38,292	9
New Hampshire	32,847	17
Vermont	30,957	22
Maine	30,246	23
Rhode Island	29,976	26

Table 5-5. Average Salaries for Selected Full-time Positions in Assessors= Offices
New England, 1990

Administrative Assistant			Clerk		
State	Average Salary	Rank	State	Average Salary	Rank
Massachusetts	\$19,478	12	Connecticut	\$18,453	4
Vermont	19,466	13	Massachusetts	17,522	8
Connecticut	19,334	14	New Hampshire	16,592	11
New Hampshire	18,600	16	Rhode Island	15,333	20
Rhode Island	18,470	18	Maine	15,257	21
Maine	17,140	23	Vermont	Insufficient data	
		out of 37			out of 42

5.5.4 Selection and Retention

There is an elected board of assessors in four Rhode Island towns. In the remaining towns and all cities, a single individual holds the position of assessor. The position is appointive. Appointment may be by the city or town council or by the manager or finance officer. The term of appointment usually is indefinite. Patronage considerations may affect appointment in some municipalities (this may also affect staffing in other positions). Rhode Island public employees regard themselves as highly unionized. This appears to be true, especially of clerical employees, based on the previously mentioned 1990 IAAO survey. Except for having larger than expected clerical staffs (see above), the effects of unionization on assessment practices is unclear.

5.6 Computing Resources

Computer support (which includes the personnel responsible for ongoing system analysis, design, programming, and operations as well as software and hardware) is a virtual necessity in contemporary property tax administration. Computers eliminate much paperwork (copying information from one form to another and maintaining manually prepared work logs and other reports designed to produce an audit trail) and reduce the need to make photocopies. They reduce the time spent on mechanical, repetitive processes such as producing assessment lists, making valuation calculations, and tax accounting. Data can usually be made more accessible and more secure. Use of computers can improve efficiency. Computers can help increase valuation accuracy by expanding analytical capabilities.

Happily all of the Rhode Island assessors= offices we surveyed have computer support, and nearly 90 percent have computer-assisted mass appraisal (CAMA) systems installed by a revaluation contractor or another vendor. Most assessors expressed satisfaction with their CAMA systems, although there were instances of system defects and inability to use the system because of inadequate training and documentation. Although problems such as these should be addressed by the municipalities affected, we conclude that it would not be cost-effective for the State to sponsor a CAMA system, as Massachusetts has.

The greatest opportunity for improvement probably is in the area of system integration. In many instances, a CAMA system is not integrated with the municipality's tax billing and collection system or financial management system. In addition, the State should be able to extract the data it needs from city and town systems (see recommendation 4-10). This will require some standardization in property characteristics and file specifications.

5.7 Recommendations

Recommendation 5-1. Staff each assessor's office adequately.

According to *Assessment Practices Self-Evaluation Guide*, published by the International Association of Assessing Officers, an assessment district should have a full-time, professionally qualified assessor and at least one appraiser. Using typical parcel-staff ratios as a guide, districts with more than 5,000 parcels can justify such a staff. Another rule of thumb is that it is reasonable to spend about 1.5 percent of property tax revenues on assessment administration. Based on typical salaries, ratios of personnel costs to total costs, and budgets per parcel, a minimal assessment district should have a budget in excess of \$80,000, which would imply that the total tax levy should be in excess of \$5.3 million. In other words, it is difficult to cost-justify a minimal full-time assessment operation in towns that levy less than that amount.

The levy benchmark implies that even most small Rhode Island cities and towns could justify a minimal professional assessment staff, although it would be more cost-effective to employ part-time employees or contractors. The contract option means that assessors should possess contract management skills.

Matters are more complicated in towns with boards of assessors. Fortunate towns have skilled boards, part-time assistants, or consultants who are able to juggle their other time commitments so that the town's needs are met. For the others, self-sufficiency and being the masters of their own destinies are unattainable goals. Tax equity and, equally important, public service suffers.

Recommendation 5-2. Authorize joint assessment districts.

Consideration also could be given to forming joint assessment districts, as has been successfully done in several states. Towns can retain autonomy in tax policy matters while achieving economies of scale.

6. Cadastral Data Collection and Management

Data collection and management account for about three-fourths of expenditures for assessment administration. We considered four broad issues: data adequacy (that is, whether Rhode Island assessors maintain the data needed for modern mass appraisal systems), data accuracy, data security, and data accessibility. We evaluated whether existing data were sufficient for basic property identification and description, classification, valuation, and determination of taxability and ownership. We inquired about:

- § The processing of real property transfer documents, plats, and other documents used in updating ownership records, cadastral maps, and sales files.
- § The status of cadastral mapping.
- § The processing of building permits and how permit data are used to update property records and appraised values.
- § Field inspection programs designed to maintain property characteristics data.

However, our survey and interview strategy did not allow us to observe procedures in detail.

6.1 Maintenance of Ownership and Sales Data

6.1.1 Ownership Changes

Deeds, surveys, and related documents are the chief sources of information signaling ownership changes and the creation of new parcels. These documents must be processed to update roll entries, maps, and property records. Rhode Island assessors appear to approach the updating of roll entries straightforwardly. Deeds are recorded in the town clerk=s office. Cooperation with the clerk=s office generally appears good, and assessors usually get copies of deeds promptly. Some read the deeds in the clerk=s office and abstract the necessary information.

6.1.2 Sales Data

Sales data used in valuation and in ratio studies must be reliable. Information about the property sold, the sale price, the terms of the sale, and the circumstances of the sale must be accurate. Deeds and real property transfer returns are the primary sources of information of sales prices and

terms. If the information from these sources is incomplete or questionable, additional efforts to collect and verify information should be made. A party to the sale (buyer, seller, or an agent) is the best source.

As so-called "arm's-length, open-market sales" provide the best evidence of market values, it is necessary to determine whether each sale meets the arm's-length, open-market criteria. It also is necessary to verify the price and to determine whether adjustments to the nominal price are required when personal property is included in the sale. (Such adjustments are most often required when business properties are sold.)

In Rhode Island, sales prices generally are calculated from real property transfer tax stamps affixed to deeds. The basic sales data collection document is the Department's two-part sales abstract form (form D-1), one copy of which is retained by the assessor. Although the form has the advantage of brevity, it could be improved by providing space to collect additional information, such as on financing and the inclusion of personal property.

Although there are no instructions for completing the form (see recommendation 4-14), it appears generally self-explanatory. Processing generally is done by the assessor's clerical staff. Assessors differ as to whether the Department wants *all* sales or only *good* sales. Another area of difficulty is in identifying conditions that would make a sale unusable in the State's ratio studies. In general, assessors rely on information on the deed or already in their files in screening sales. They neither contact a party to the sale or inspect the property in the field. Some assessors are very diligent in processing the Department's sales abstract forms, while others are deliberately dilatory. A final shortcoming with the form is that it makes no allowance for personal property adjustments.

Sixteen of the thirty-two assessors maintain a sales file, in keeping with good professional practice. In twelve cities and towns, the file is computerized, which is highly desirable.

6.2 Cadastral Maps and Parcel Numbering Systems

6.2.1 Cadastral Maps

The foundation of an effective property tax system is a complete and up-to-date set of cadastral maps (property ownership or tax maps) detailing the location, shape, and size of every parcel of land. Compiling cadastral maps is analogous to completing a jigsaw puzzle. The puzzle has to be complete before one can be sure that all the pieces are in their proper places and that there are no missing or extra pieces. That is, all land area should be accounted for. No plots of land should be omitted, and no land areas should be counted more than once. Solving the cadastral map puzzle requires that every parcel of land be displayed graphically on a map.

Of the thirty-two assessors we surveyed, twenty-six categorize their cadastral maps as complete and up-to-date. Four have begun programs to computerize their maps.

6.2.2 Parcel Identification Systems

Each land parcel should have associated with it a unique identification number, which serves as the primary key to property and tax records. Common ways of identifying parcels, such as by address, owner, or other property characteristic, are not acceptable as the primary identifier because they can be ambiguous or unwieldy. A cadastral numbering system provides uniform and manageable identifiers. These numbers are used to link parcel information on maps with parcel data in other registers and files.

Parcel numbers should meet the criterion of *uniqueness*. Uniqueness is a one-to-one relationship between the size and shape of a parcel and its number. It is the most important attribute of the numbering system. Other important characteristics include (1) permanence (a number should change only when parcel boundaries change); (2) simplicity (uncomplicated, short, sequential numbers are easier to use); and (3) reference to geographic location. However, the design of the parcel numbering system will require a compromise; it is impossible to satisfy all of the above criteria equally well.

Most Rhode Island assessors (thirty of the thirty-two offices we surveyed) employ the so-called Aplat-lot@ parcel identification system. However, it is not implemented uniformly, and, as

implemented, it would not always satisfy the criterion of uniqueness. Fortunately, only one tax collector does not use the same identification system as the assessor.

6.3 Maintenance of Property Records

The maintenance of property records requires field inspections. They are needed to ensure that the information in land and building attribute files is correct. There are two types of inspection activity: periodic general canvasses of all properties and special inspections of properties that were recently sold, were issued a building permit, or are under appeal. Field inspections can have two levels of detail: complete collection or re-collection of data or verification of data. No assessor reported attempting to reinspect all properties between revaluations. They rely on revaluation contractors.

Building permit tracking generally appears satisfactory. Relationships with building officials generally are good, and assessors regularly receive copies of permits. Assessors differed as to the integrity of the building permit process. Some construction takes place without a permit, and building officials reportedly rarely conduct field canvasses. Often neighbors are relied upon to report illegal construction. Sometimes the construction undertaken does not match that for which the permit was issued. This is not problematic if the assessor inspects all permits. Many, however, inspect permits for new structures and major renovations.

6.4 Content of Property Records

We reviewed a sample of property records to evaluate whether they contained sufficient information to apply the three approaches to value. Since most assessors use records developed by a revaluation contract, they generally are very well designed to support the valuation methods the contractor favors. The record forms generally were satisfactory for basic land valuation and application of the cost approach to building valuation.

There is a State property type code. Although largely self-explanatory, definitions would help with the categorization of borderline cases. See recommendation 4-15.

6.5 Recommendations

Recommendation 6-1. Make it legally sufficient to identify a parcel only by its parcel (plat-lot) number. Parcel numbers should be required on sale agreements, other property documents, and building permits.

Recommendation 6-2. Instruct assessors to assign parcel numbers so that each number uniquely represents a parcel.

State guidelines should require that whenever the boundaries of a parcel are changed, the successor parcel or parcels should be assigned a new plat-lot number. A parent number should not be retained in its original form, although a suffix could be added to signal a change.

Recommendation 6-3. Introduce a real estate transfer declaration.

The majority of states have a real estate transfer declaration on which, as a prerequisite to the recording of a deed of sale, buyers and sellers declare the price paid and circumstances of the sale. The declaration or affidavit is submitted with the recorded deed. One copy is sent to the local assessor and one copy to the State. This would provide the State with a master data base of all recorded sales. Assessors would still need to submit assessed values and screen sales, subject to OMA review. However, the transfer document would provide the OMA direct access to sales data and help ensure that sales were being screened properly and consistently. The transfer declarations would also be valuable to assessors and appraisal companies in both revaluations and in-house sales ratio programs. The IAAO *Standard on Ratio Studies* (1990) contains a model sales questionnaire which could be used as a basis for developing the transfer declaration.

Most assessors support such a transfer affidavit. Several suggested attaching a small fee, which might be used to support inspections of sale properties or otherwise improve sales processing and information.

Recommendation 6-4. Instruct assessors to confirm sales data in key situations and to inspect recently sold properties.

If a real estate transfer declaration is adopted, it would be necessary to confirm only sales for which the information on the declaration was insufficient.

Recommendation 6-5. Mandate the disclosure of rental property incomes and expenses.

Assessors and state appraisers need access to rental property incomes and expenses to employ the income approach to value effectively. Connecticut and other states give assessment officials the power to demand income and expense statements. The laws also provide that individual figures are to be treated confidentially.

Recommendation 6-6. Require assessors to maintain a sales file that captures the characteristics of properties as of their sales dates.

Sales prices cannot be properly analyzed unless the appraiser has information about the characteristics of the property that was sold. As noted, most assessors already report having such a file. Many sales files are computerized, which is highly desirable.

7. Real Property Valuation

Rhode Island law dictates that ordinary real property be appraised on the basis of its full and fair cash (market) value. In this section, we evaluate existing real property appraisal practices.

7.1 Appraisal Cycle and Frequency

Assessments in Rhode Island are based on a mandated ten-year cycle. Reappraisal dates are staggered. Some jurisdictions completed a revaluation last year, some are currently implementing one, and others have not reappraised in ten years. Several jurisdictions have not complied with the ten-year cycle, and valuations date as far back as 1982.

These long time lags result in large variations in assessment levels among communities (section 12). In addition, because of differing economic conditions, property types are appraised at different percentages of market value. Commercial and apartment properties have been comparatively depressed and thus over-appraised relative to single-family properties. Vacant land and recreation properties have been comparatively under-appraised.

Virtually all assessors favor shortening the reappraisal cycle to no more than six years. Many favor a three- to five-year cycle. Others favor a six year physical revaluation cycle with two- or three-year updates based on statistical analyses. Many emphasize that, regardless of method, the new requirements should be mandated in statute and consistently enforced, otherwise towns will not budget for them.

7.2 Revaluation Contractors

All Rhode Island municipalities hire mass appraisal companies to do their revaluations. Except for isolated instances, values are not updated between revaluations based on sales ratio or other market studies. Most assessors appear to regard this as politically unacceptable and not a practical option. Between reappraisals, assessors spend the bulk of their time working new

construction, assessing motor vehicles and personal property, and providing public assistance. Several municipalities hire contractors to assist in maintenance work.

In almost all cases, revaluation contractors employ a computer-assisted mass appraisal (CAMA) system. Most of these are proprietary. In addition to reappraisal services, reappraisal contracts have generally included the cost of CAMA software and support. Most municipalities expressed general satisfaction with their systems, although a number reported serious shortcomings and concerns. Some rate software functionality better or worse than system support.

Some assessors would like to see municipalities move in the direction of building in-house reappraisal capabilities. These assessors emphasize that assessors must monitor revaluations in any case and that performing revaluations in-house would help justify stronger reappraisal staffs and resources. A few assessors cited dissatisfaction with shoddy reappraisal work. Most assessors felt, however, that adding necessary staff and resources would be deemed overly expensive and politically unacceptable. In-house revaluations would require well-trained, qualified staff, and salary levels may well have to be increased.

7.3 Valuation Methods

7.3.1 Vacant Land

Most reappraisal contractors emphasize the sales comparison approach in the appraisal of vacant land. Usually, sales are stratified by neighborhood and typical per-unit values (e.g., value per acre or per square foot) are developed. Sales may also be plotted on maps. Adjustments are developed for such situs features as topography or lake frontage. Land appears to have increased in value relative to structures. A number of assessors note that the market for waterfront properties has been relatively strong.

7.3.2 Single-Family Residential

Most municipalities use both the cost and sales comparison approaches to appraise single-family residential property. Slightly over-half place primary emphasis on the sales comparison

approach; the rest emphasize the cost approach. Several use a market-adjusted cost approach, in which cost tables or values are fine-tuned based on sales ratio studies.

Applications of the sales comparison approaches usually take a value per unit or traditional, single-property appraisal approach. In the former, mass appraisal contractors develop benchmark per-square foot values for various strata of properties, e.g., homes of a certain age and design in a given neighborhood. In the latter method, subject properties are appraised by reference to comparable sold properties. Several municipalities have experimented with or expressed interest in multiple regression analysis, which is covered in IAAO mass appraisal (300 series) courses. Software included in new mass appraisal contracts is increasingly likely to include such options. However, mass appraisal companies have not used multiple regression or similar automated techniques in Rhode Island, probably because of the older mix of properties and relatively limited sales.

Some mass appraisal contractors adopt Marshall and Swift or other third-party cost tables. Others develop their own schedules, sometimes using cost data obtained from local contractors and builders. Depreciation schedules may reflect standardized tables or local market analyses. Virtually all systems have provisions for applying functional or economic obsolescence adjustments.

7.3.3 Multi-Family Properties

All three approaches are used to appraise apartments and other multi-family residences. About half of municipalities emphasize the sales comparison approach, generally in the form of a value per living unit or per square foot analysis. Another one-third or so emphasize the cost approach, sometimes adjusted to the market based on sales ratio analyses. The remaining jurisdictions emphasize the income approach, which may take the form of an income multiplier or overall rate analysis. Most municipalities use at least two approaches, and about one-third use all three.

7.3.4 Commercial and Industrial Property

Contractors usually also apply at least two approaches in the appraisal of commercial and industrial property. In about half of municipalities, primary weight is given to the cost approach. About one-third emphasize the market approach and one-sixth the income approach. Because of depressed market conditions, these properties have been particularly hard to appraise. Appraisal levels tend to be relatively high and uniformity poor. In several communities, commercial property owners appeal their values many years after reappraisal, citing poor economic conditions and equity considerations.

7.4 Recommendations

Recommendation 7-1. Reduce the interval between revaluations to no more than six years and require statistical updates at least every three years. Accompany the revaluation requirement with a required program of field inspections such that every property is inspected at least once every six years.

There are several viable options. We favor a six-year cycle with three-year updates. We believe, as mentioned in IAAO standards, that all properties should be physically reviewed at least every six years. However, this is far too long a period to leave values unmaintained. Hence, in Rhode Island, with its history of cyclical revaluation and emphasis on contractors, we recommend a six-year cycle of physical reviews with a statistical update every three years. This should serve to maintain reasonably good equity, both within and among classes of property, at reasonable costs.

At the same time, we recognize that there are other worthy options. One is a three-year revaluation cycle, as practiced in Massachusetts. However, we believe that any longer cycle must be accompanied by periodic statistical reviews and updates to accommodate market shifts.

Another approach used in many other states is to reappraise a given percentage of properties each year, say one-fourth or one-sixth, and update other statistically. This approach would not fit well in

Rhode Island, with its comparatively small assessment districts, and was viewed unfavorably. We do not recommend it here.

Recommendation 7-2. Enforce the revaluation cycle.

Whatever the revaluation cycle, it must be consistently and firmly enforced. All assessors seem to agree. If not, towns will not budget for revaluations and inequities will grow. The result is a difficult situation, in which values become increasingly unrealistic and revaluations politically more difficult.

Accordingly, we believe some sort of fiscal penalties must be imposed on municipalities who ignore the mandated cycle. This should take the form of withholding state funds. An alternative if for the state to take over the assessor=s office, carry out the revaluation, and bill the city or town for the costs.

Recommendation 7-3. Consider State financial assistance to help pay for initial reappraisals done in accordance with State and professional guidelines.

Our recommendation of more frequent reappraisals may mean additional costs (more than offset by increased benefits). For cities and towns unable to meet these costs initially, the State might establish a revolving fund to lend the towns money for necessary training, improved computer systems, temporary staff, and contractors, provided the Office of Municipal Affairs approves the revaluation plans. Reappraisal contracts as being consistent with accepted professional practices.

8. Personal Property Assessment

We discuss the assessment of ordinary business personal property in section 8.1, public utility personal property in section 8.2, and motor vehicles subject to the ad valorem excise tax in 8.3.

8.1 Ordinary Business Personal Property

The basic steps in personal property assessment include (1) compiling lists of potential taxpayers, (2) collecting information from those persons regarding their personal property holdings, (3) reviewing that information with the objective of arriving at an estimate of the current taxable value of that property, and (4) making assessments.

We reviewed programs for discovering owners of taxable personal property and evaluated the adequacy of tax returns. We reviewed how returns are processed, including follow-up efforts, field visits, and audits. We reviewed valuation approaches (including the use of historical and reported costs, cost trending, and depreciation). Practices varied widely, from honor system assessment to aggressive efforts to discover and value taxable personal property.

8.1.1 Reporting

The discovery of taxable personal property is somewhat helped by the archaic legislative requirement to make an account in 44-5-15. Although taxpayers are required to disclose and state the value of their property holdings, the law does not require use of a standard form. Clearly, the absence of a standard reporting form ensures inequitable assessment of personal property, forces each assessor to develop her or his reporting system, can increase taxpayer compliance costs, and results in general confusion. Any advantages of autonomy in assessment practices would not seem to offset these costs.

Fortunately, assessors have collaborated in the design of a model form, which many assessors use. Some have improved on the model form. There are opportunities to make further improvements, however.

8.1.2 Discovery

Without overt efforts by assessors to identify probable owners of taxable personalty and send them blank reporting forms, the personal property tax becomes a tax on honesty. As noted, assessors' efforts to discover potential owners of taxable personal property are uneven. At their worst, assessors do very little to update their list of personal property accounts. At their best, assessors diligently monitor business activity (directories, advertisements, and business licenses), to pick up new accounts and delete old ones. In these jurisdictions virtually 100 percent of businesses are sent blank reporting forms.

Non-reporting and suspected under-reporting are dealt with in several ways. Some assessors do nothing. A frequently used technique is to make an arbitrary assessment and increase it annually until a property owner appeals. Although this approach consumes little resources, it is haphazard. Some taxpayers could be undertaxed for years, while others could be overtaxed and fail to appeal out of ignorance. More effective are direct follow-up activities, such as sending reminders by mail, telephone contacts, and field visits. Twenty of the thirty-two surveyed assessors' offices indicated they regularly made field visits. Little use is made of audits. These are needed to ensure that reported information is accurate.

8.1.3 Valuation and Assessment

Of necessity, original costs are the starting point in the valuation and assessment of most personal property. Too often, Rhode Island assessors base assessments directly on reported costs. However, most make adjustments, which could be in the form of cost trend factors or standard depreciation allowances. Some use price guides to confirm or adjust declared values. Only rarely are audited figures used as the basis of assessments.

8.2 Public Service Corporation Property

Public service corporation or Utility⁶ property (that is, electric power, gas, telephone, telecommunication, water, pipeline, railroad, airline, and transit company operating property)

typically presents special assessment and valuation problems. These corporations commonly serve areas broader than a single assessment district or state. Their operating property holdings typically function as an integrated system rather than as discrete units, such as a chain of stores, although deregulation is changing that somewhat. Consequently, the value of any particular piece cannot easily be determined separately from the value of the whole. At least in the case of viable systems, there is a belief that the value of the whole is greater than the sum of the values of the parts. This has given rise to the theory that the system should be valued as an entity and that its value should be divided among the tax districts concerned according to some agreed-upon, fair but essentially arbitrary rule. Valuation generally is the responsibility of state government.

Rhode Island follows a bizarre version of this model for some utility property. Certain personal property of telegraph, cable, and telephone corporations (not including CATV companies) and of express corporations is exempt from local taxation. This property is assessed and taxed by the state.

The taxes collected, less amounts withheld for administration, are distributed to cities and towns based on population. Companies submit net book values (original costs less depreciation, to a minimum of 25 percent of original costs) to the Department. The Department adjusts these amounts by an Average assessment ratio.⁶ An Average property tax rate⁶ is applied to the assessments. The Average assessment ratio⁶ is obtained by dividing the total assessed valuation as certified on tax rolls by the Department's estimate of the full value of that property for the reference year, which is two years before the current year. The Average property tax rate⁶ is formed by dividing the total statewide property tax levy by the statewide total assessed valuation for the most recent year.

The real property of these corporations and all property of other utilities are valued by local assessors using the information and methods available to them. This presents a number of problems. Although it is possible that some property is taxed twice, it is more likely that some property is neither reported on accounts nor picked up as real property. Overvaluation also is possible, although gross undervaluation is more likely.

As reported by the Advisory Commission on Intergovernmental Relations in *State Revenue Capacity and Effort* for 1991 (published September, 1993) Rhode Island has the second lowest per capita public utility property tax capacity. Against a national average public utility property tax capacity of \$ 40.76, Rhode Island's is \$ 17.70 or 43 percent of the national average. Only Alaska is lower than Rhode Island. By comparison the per capita public utility capacity of Connecticut is \$ 38.80, Maine is \$ 33.29, Massachusetts is \$ 32.59, New Hampshire is \$ 39.00, and Vermont is \$ 32.44. This suggests that a substantial portion of the Rhode Island public utility property tax base, either intentionally or unintentionally, is escaping taxation.

Current methods of assessing utility property are indefensible. Uniformity is impossible to achieve. The process is one of mixing apples, grapes, bananas, and oranges.

8.3 Motor Vehicles

The statutory scheme for assessing motor vehicles sets out a cumbersome process of data transfers between the Motor Vehicle Registry and local assessors and back to the Registry. The result is lists of automobiles being sent to the wrong town and tax bills being sent to the wrong address. Automobile owners also have the responsibility of notifying the Registry when they leave the state by returning their registrations, which they frequently neglect to do. In addition, taxes must be prorated whenever an owner moves, adding to the administrative work load. Moreover, some cities and towns place discriminatory taxes on motor vehicles, which encourages taxpayers in them to shop for low-tax towns in which to register their vehicles.

Valuation also is problematic. A Motor Vehicle Valuation Commission has been set up to assist. Although it undoubtedly has increased the efficiency and equity of motor vehicle assessments, it provides uniform statewide values only more common vehicles, leaving assessors with the responsibility for more difficult (and often high value) cases. In an attempt to simplify valuation, the statutes command assessors to disregard factors, such as condition, that affect value. Taxpayers fail to appreciate this and often object to their assessments to no avail. Assessors must deal with these aggravations. Meanwhile, motor vehicle assessments constitute less than 8 percent of the total tax

base. Of course, some communities derive a slightly higher percentage of their property tax revenues from motor vehicles.

8.4 Recommendations

8.4.1 Ordinary Business Personal Property

Recommendation 8-1. Amend section 44-5-15 to deal exclusively with the filing of personal property information with a due date of March 15th. The legal notice in newspapers should be uniform and cover all cities and towns simultaneously. The Department of Administration should take responsibility for this notice and a prescribed reporting form. Incorporate the filing requirements in 44-5-38 in the general filing requirement.

Recommendation 8-2. Require taxpayers to submit their annual personal property tax returns on a state-prescribed form.

The Department of Administration should prescribe and furnish to all assessors personal property reporting forms for both manufacturers and non-manufacturers. The forms could be derived from analysis of existing forms, including the model form and the forms used by the City of Providence, distilling the best features from among them. As the goal would be a set of forms acceptable to both assessors and taxpayers (who must be able to provide the information requested), input from both is critical. Assessors could be allowed to deviate from standard forms with the consent of the Department.

We recommend that the issues identified below also be addressed.

- X *Inventories.* If inventories remain taxable, standardize inventory reporting procedures. Personal property reporting forms currently in use do not always require monthly averaging as the law requires. In addition, no standard valuation method is prescribed. In fact, some forms do not mention a valuation method.

- X *Leased Equipment.* Harmonize leased equipment reporting requirements with statutory situs requirements (44-4-24). Some reporting forms correctly require taxpayers to identify items of personal property that they are leasing to others. Other reporting forms unhelpfully merely require taxpayers to list property that they are leasing from others.
- X *Manufacturing Machinery and Equipment.* The model form and several other forms instruct manufacturers *not* to declare manufacturing machinery and equipment, which makes it more difficult to verify whether property has been properly classified, inviting the de facto exemption of non-manufacturing property.
- X *Leasehold Improvements.* Some reporting forms require taxpayers to identify leasehold improvements they have made to the premises they rent. Although the request to disclose leasehold improvements can be viewed as a desirable element in a sophisticated system, its presence in Rhode Island is slightly troublesome. There is a danger that some leasehold improvements will be taxed both as real property and as personal property, given the rudimentary personal property assessment systems used by some assessors and the fact that much real property is listed by outside contractors. There also is the issue of differential assessment of like items based only on whether the item is owned by the lessor or lessee. If the improvement truly is in the nature of a fixture, it would be deemed to be the property of the lessor regardless of the fact that the lessee paid for it. Assessors should have a program of cross-checking listed leasehold improvements with their real property records.

Recommendation 8-3. Require assessors to carry out a personal property discovery and valuation program that complies with professional standards. Failure to comply could result in personal property being subtracted from estimates of taxable value used in the distribution of state aid.

Recommendation 8-4. Consider requiring all cities and towns to require all businesses to register to facilitate the discovery of taxable personal property.

Recommendation 8-5. Consider repealing the tax on business inventories.

Manufacturers= inventories already are exempt, and localities may exempt wholesalers= inventories. As discussed in section 8, the measurement of inventories is problematic. According to the U.S. Census Bureau, nine states do not subject personal property to the general property tax (Delaware, Hawaii, Illinois, Iowa, New Hampshire, New York, North Dakota, Pennsylvania, and South Dakota). Inventories are totally exempt in thirty-two states. Business personal property is otherwise taxable in forty-one states.

8.4.2 Utility Property Assessment

Recommendation 8-6. Transfer responsibility for utility property valuation to the State, which should use professionally accepted unit valuation methods, and the unit values should be allocated to local authorities for tax purposes.

8.4.3 Motor Vehicle Assessment

Recommendation 8-7. Consider repealing the ad valorem excise tax on motor vehicles.

Taxing motor vehicles makes sense for several reasons, but *ad valorem* taxation is not best. Governments must make substantial expenditures for roads and in providing for public safety. Vehicular traffic also causes environmental damage. However, experience has shown that citizens do not easily accept having their personal automobiles taxed on the basis of their values. Ordinary automobile values decline quickly. In addition, governmental costs associated with vehicular traffic are not closely correlated with where the owner resides or the values of vehicles. For these reasons, we think consideration should be given to taxing automobiles on another basis, such as horsepower, engine displacement, or vehicle weight. Motor vehicles are exempt from general property taxation in thirty-two states, but some, like Rhode Island, subject them to special property taxes.

Recommendation 8-8. If the decision is made to continue to tax motor vehicles on an ad valorem basis, simplify the assessment procedure.

We recommend that a committee be formed to evaluate simplification proposals and make recommendations to the General Assembly. The Department could chair the committee, which should have representation from the assessors, the Motor Vehicle Registry, and the Motor Vehicle Valuation Commission. The following should be among the options considered:

- X *Transfer responsibility for assessment, valuation, and taxation to the Motor Vehicle Registry. Taxation could be at a uniform (average) state rate with revenues distributed to cities and towns on the basis of population, number of vehicles registered, or some other equitable and objective basis. This would improve accountability by clarifying responsibility for assessment, eliminate the cumbersome data transfer requirements of the current system, and remove the incentive to shop for low tax municipalities to register vehicles. Municipalities with the highest effective tax rates on motor vehicles may lose revenue, but probably not in direct proportion to current rates and the average rate. The Registry could be allowed to retain a portion of the revenues to offset its costs.*

- X *Make cities and towns responsible for taxing motor vehicles in conjunction with local licenses. As with the first option, this option would clarify responsibility and eliminate cumbersome data transfer requirements. Taxpayers may still find it advantageous to shop for a motor vehicle tax haven unless a uniform state rate is adopted.*

9. Exemptions and Reliefs

9.1 Current Situation

In principle, exemptions should be kept to a minimum. By reducing the property tax base, exemptions increase the proportionate burden on other taxpayers and may reduce tax yields. Exemptions can distort economic behaviour by encouraging inefficient use of land and buildings. Nevertheless, sound reasons for granting exemptions exist, and virtually all property tax systems provide for exemptions.

Rhode Island may be only slightly different than other states in the portion of the tax base that is exempt from property taxation. But no state is believed to have the diversity among cities and towns in exemptions that Rhode Island has. While local option exemptions are prevalent in other states, the latitude and flexibility within the local options in Rhode Island is unusual. The diversity among cities and towns is then further exacerbated by the exemption provisions that have been enacted that pertain only to a single city or town. Property tax exemptions are generally thought of as promoting statewide political, social, and economic objectives. In Rhode Island the focus is more on authorizing the promotion of individual city/town political, social, and economic objectives.

Rhode Island also has classified assessments, classified tax rates, and homestead exemptions, including an extraordinary range of veterans' exemptions. While none of them, in and of themselves, is unique, the mixing and matching combinations of them in individual cities and towns is unique. Where classified assessments, classified tax rates, or homestead exemptions exist within a state they are generally uniformly applied. Where local flexibility does occur it is within general statewide parameters. Approximately thirteen states have statewide classified assessments. In all but one case, the classified assessment ratios are set by law and are the same throughout the state. The state of Colorado annually determines and promulgates classified assessment ratios to be used by assessors for its two class system. Illinois has authorized a classification system for Cook County.

Only a few states authorize classified tax rates, most notably Massachusetts, New York, and West Virginia. In the case of New York, state-set parameters are used to determine the tax shares for four classes of property in New York City and Nassau County. In the rest of the state, a two-class local-option classified rate system exists for certain eligible local governments but within state limitations. Massachusetts allows classified tax rates at local option for three classes of property. However, the tax rates may not vary from the uniform rate beyond that specified by the state. This approach has allowed Massachusetts cities and towns flexibility in adjusting class tax share shifts following reassessment. It helped them to successfully implement reassessment over a three-year cycle.

Homestead exemptions exist in up to ten states. Generally they are a fixed dollar amount that is the same throughout the state. The homestead exemptions may be nominal or quite significant, as in Louisiana with a \$ 75,000 exemption. Only two states provide a local option feature. Texas authorizes a local option homestead exemption that may be either a fixed dollar amount or a percentage. Massachusetts, at local option, allows a 10 percent reduction in assessed value for owner occupied residences. Where classified rates are being used, this exemption may not be shifted to other classes, but must stay in the residential class. This means rental units and second homes will pay more.

Only two states, other than Rhode Island, were found to combine classified assessments, classified tax rates, and/or homestead exemptions. Louisiana has classified assessments and a homestead exemption. Massachusetts, at local option, has classified tax rates and a homestead exemption.

Among Rhode Island's thirty-nine cities and towns are ten different combinations of classified assessments, classified tax rates, and homestead exemptions (see exhibit 9-1). Overlaid on these are special exemptions for veterans and the elderly.

There seems to be no rational basis for classifying assessments. If the primary purpose is to have higher effective taxes on motor vehicles than on real and personal property, the same result could be achieved by imposing a higher tax rate on motor vehicles, as is done in five cities and towns. The

two towns, Portsmouth and Richmond, that assess uniformly at 70 and 80 percent respectively have no tax impact as a result of choosing a percentage of less than 100.

Exhibit 9-1. Patterns of Assessment and Tax Rate Differentials and Homestead Exemptions

Combination of assessment ratios, rate classes, and homestead exemptions	Number
Uniform assessment ratio of 100 percent	
One rate class, no homestead exemption	21
Two rate classes (RE+PP and MV), no homestead exemption	3
Two rate classes (RE and PP+MV), no homestead exemption	1
Three rate classes (RRE, CRE, and PP+MV), no homestead exemption	1
Two rate classes (RE+PP and MV) plus homestead exemption	1
Two rate classes (RE and PP+MV) plus homestead exemption	3
Three rate classes (RRE, CRE, PP+MV) plus homestead exemption	1
Uniform assessment ratio less than 100 percent	
One rate class, no homestead	2
Uniform tax rate	
Different assessment ratios for RE+PP and MV, no homestead exemption	5
Different assessment ratios for RE and PP+MV, two rate classes (RE+PP and MV), no homestead exemption	1

Note: RE means real estate, PP means personal property, MV means motor vehicles, RRE means residential real estate, and CRE means commercial real estate.

Normally classified tax rates and homestead exemptions will have quite different impacts on residential property owners, but not in Rhode Island. Classified tax rates benefit all homeowners proportionately. Homestead exemptions are usually for a fixed dollar amount and will therefore be of greatest value to lower valued homes. However, only Central Falls with a \$10,000 homestead exemption uses a fixed dollar amount. Lincoln, North Providence, Providence, and Woonsocket all apply a percentage reduction to the homeowner property.

Homeowners in all five instances benefit, not only from the homestead exemption, but from the classified tax rates. In Providence, homeowners receive an approximate 34.4 percent tax break, with 19.2 percent coming from the homestead exemption and 15.2 percent from the classified tax rate (calculations were from 1995 tax roll data from the Assessor's Statement of Assessed Values and Tax Levy). In North Providence, homeowners receive a 15.5 percent tax break, with the homestead exemption worth 9.5 percent and the classified tax rate 6.0 percent. In Woonsocket, homeowners receive a 26.5 percent tax break, with 10.3 percent coming from the homestead exemption and 10.2 percent from the classified rate. In Central Falls, the homeowner tax break will be dependent on the value of the home, with the classified rate more significant than the homestead exemption.

Homestead exemptions reduce the tax base which tends to increase the tax rates for all classes, including classified tax rates benefitting homeowners. For example, a 35 percent homeowners exemption in Providence results in a 19 percent tax break. Classified rates are a cleaner and more precise way of shifting tax shares and impacts among classes of property.

In examining Rhode Island's exemptions generally one concludes that an incredibly complex system has evolved. One of the hallmarks of a quality property tax system is simplicity and understand-

ability. For a taxpayer in Rhode Island the exemption system can only be understood, and then with difficulty, in the context of the individual city or town.

In reviewing Rhode Island law several local option property tax exemptions were identified (not including specific exemption authorization for specific cities and towns). Among the local options were:

- X elderly
- X veterans (seven types)
- X disabled
- X automobiles for the disabled
- X blind
- X infirmity/poverty
- X low/moderate income housing
- X historic residences
- X wholesale inventory
- X business improvements (real and personal)
- X idle manufacturing
- X water systems and reservoirs
- X renewable energy sources
- X bomb shelters
- X revaluation adjustments
- X tax treaties

Two of these merit special discussion. The exemption that received the most discussion with assessors was the hardship exemption granted for poverty and infirmity. This exemption is solely at the discretion of the assessor. Slightly over half of the assessors do not grant this exemption. But of those that do its significance on the assessment roll varies widely. Some are quite generous in granting a hardship exemption. Many assessors have no guidelines for granting this exemption. Some have established criteria, while others simply listen and make a determination on a case-by-

case basis. Some only grant 100 percent exemptions, while others will only grant partial exemptions. In a least one case, the taxes are deferred and a lien placed on the property. Despite the flexibility of this exemption, many assessors are uncomfortable with it.

Another unique exemption are tax treaties that come about by vote of the local governing body. These exemptions can be granted on a very selective basis without standards. This is an unusual authority and latitude to be granted by a state. There is about an even split between cities and towns granting and not granting this exemption. In many cases the amounts granted in this exemption category were quite substantial.

Exemptions also come in many different forms. Among the forms identified were:

- X fixed dollar amount
- X percentage of assessment
- X cap on the assessment
- X freeze on the tax rate and/or the valuation
- X hold the tax dollar savings from exemptions constant following reassessment
- X expand the value of the exemption by the percentage increase in tax levy

Within a given exemption, cities and towns have the unique ability to pick and choose among several of these forms of granting exemptions. Perhaps most difficult from an administrative perspective are caps and freezes on assessments. To correctly ascertain the full value of a city or town, the Department of Administration must know what the assessment would have been without the cap or freeze.

The elderly exemption perhaps presents as much diversity as any among the cities and towns. No two cities and towns have a similar program. Among some of the vagaries are:

- X length of ownership varies from none to seven years
- X residency can be from immediate to seven years
- X differing age requirements, with the earliest being 62

- X income may or may not be a requirement, if so it may be a fixed dollar limit or tied to some external measure
- X the amount of the exemption may be a percentage of the assessment, a flat dollar assessment reduction, a fixed dollar reduction from taxes, a percent of the tax bill, a percent of income, or a percent of income over some threshold amount
- X the type of program may be a credit, an abatement, a flat amount, circuit breaker, a freeze, a deferral, or need
- X while usually applying to real property, in some cases it applies to personal property and automobiles

One cannot imagine a more diverse and varied system within a single exemption. Compiling a complete profile of the exemptions in place for the cities and towns in Rhode Island would result in a voluminous tome. The complexity is largely self-defeating. As with homestead exemptions, relief probably is illusory. Neither taxpayers nor policy makers can easily get enough information to make rational choices.

An attempt was made to determine the significance of exemptions in relation to the total tax base. From the data available for tax roll year 1995 on the Assessor's Statement of Assessed Values and Tax Levy, this could not be done with accuracy. It appeared that not all exemption information was reported. For several cities and towns no exemptions were reported for personal property and motor vehicles, while in many other cases these exemptions were significant. Also, exemption information was not reported consistently between Group 1 - personal and Group 2 - statute. Assessors felt free to amend or completely revise the reporting form, thus making comparative analysis very difficult.

From the data, with its shortcomings, a wide range in the effect of exemptions on city and town tax bases is evident. The impact ranged from a low of five percent in Charleston to 48 percent in Providence. Cities clearly had a larger portion of their tax base exempt. The median for all cities and towns was around 11 percent. Of interest would be a determination of what portion of the exemptions come from the exercise of the local options, local ordinances, and tax treaties.

9.2 Recommendations

Classified assessments. The only current reason for classified assessments is the higher taxation on motor vehicles. This same result could be accomplished through classified tax rates in each of the six towns (Exeter, Foster, Little Compton, New Shoreham, North Smithfield, and Scituate) with higher motor vehicle assessments. Of this group, only North Smithfield has classified tax rates. The motor vehicle share of property taxes in these six towns ranges from a low of 1.7 percent to 14.6 percent.

Recommendation 9-1. Amend Rhode Island law to require assessments to be at a uniform percentage of 100 at each reassessment.

Classified rates and homestead exemption. The introduction of classified rates and a homestead exemption generally occur with reassessment. Because motor vehicle and personal property assessments are kept current, while real property has at least a ten-year time lag in value, it is inevitable that there will be shifts in tax shares at reassessment from personal property and motor vehicles to real property. Because the valuation of personal property and motor vehicles is on a current basis they pay more than their fair share in the years prior to reassessment.

Recommendation 9-2. Replace current classified tax rates and homestead exemptions by adopting a local option program analogous to that of Massachusetts.

The system need not have the same classes. Based on current property tax policy practices, three classes would appear logical. These would be residential property, personal property, and commercial and all other properties. As in Massachusetts, parameters should be established so that the residential property tax rate could not be less than X percent of the uniform rate and personal and commercial property could not be higher than Y and Z percent higher than the uniform rate. This would afford cities and towns knowledge in advance of a reassessment that they could make adjustments in class tax rates to reflect political, social, and economic policies for property tax shares. It would give the commercial sector certainty as to what the upper limits would be on their

tax liability. Cities and towns would have the opportunity to use such a provision as transitional and to work incrementally towards a uniform rate.

Caps and freezes. Caps and freezes on assessments and individual tax rates create administrative nightmares. The calculation of equalized weighted assessed valuations are adversely impacted by caps and freezes on assessments. The same results can be achieved, if necessary, through holding constant the property tax dollars to be paid or by expanding the value of the exemption and letting the assessment be fairly and accurately determined.

Recommendation 9-3. Eliminate all assessment caps and freezes.

State parameters for exemptions. Other states generally have more narrowly defined local option exemptions than Rhode Island. When choosing to grant an exemption, a local government frequently has discretion on income levels or other dollar amounts to be exempted. Other eligibility requirements such as residency, length of ownership, age levels, application deadlines, type of exemption (flat amount, percentage, deferral, etc.) are usually set in state statute and are uniform throughout the state. The variations in the elderly program, if carefully examined, could encourage senior citizens, and those nearing senior citizen status, to make housing location decisions based on exemption eligibility requirements.

While other exemptions have wide city and town diversity, the elderly exemption perhaps highlights it best. The question posed is one of individuality and diversity versus consistency and uniformity. What perhaps is needed is neither extreme but some balance between the two. The tilt now is clearly towards diversity and individuality.

Recommendation 9-4. Adopt uniform standards for local option exemptions.

For example, for the elderly, this would mean common age, residency, length of ownership, portability, spousal relationship, transferability, application dates, and method of calculation. Cities

and towns would maintain flexibility in determining income levels. These same principles should be applied to the other local option exemptions, such as veterans= exemptions, as well. State established criteria and standards would benefit both taxpayers, who will have a better understanding of the real property tax system, and assessors, who have responsibility for fair and cost effective administration of assessments. Exemptions once granted can not easily be taken away. Current recipients of exemptions could be grandfathered in, so that they do not suffer diminishment of their exemption.

Special mention needs to be made of the hardship exemption. Its subjectivity cannot be defended. If low income taxpayers are to receive preferential property tax treatment, clear state standards and criteria must be in place. Decisions of this sort should not be left to the discretion or judgment of a single individual.

Individual city/town exemptions. The ultimate in local autonomy are exemptions that no one else has. One town grants volunteer firemen and ambulance workers a \$ 30,000 exemption. But can it rationally be justified for one town and not others? If it has merit in one town, logically it has merit in others. Some such exemptions are so narrowly defined as to smack of favoritism.

Recommendation 9-5. Discontinue the fragmented pattern of individual exemption enactments.

If there is a basis for enacting new exemptions of this sort, the legislation should be general and provide each city and town the same option. Legislation should be adopted preventing further granting of new exemptions by assessors under the individual city and town authorization. Again, current recipients should be allowed to retain their exemption.

The purpose of the discussion on exemptions is not to eliminate them, but to suggest an incremental move towards more uniformity and standardization within the state. Assessors and taxpayers alike would be better served by greater clarity and comprehensibility of the myriad exemptions available.

10. Assessment Appeal

Despite the care assessors take, they cannot eliminate all mistakes. Changes in property characteristics may go undetected. Factual errors may go undetected or uncorrected. Judgmental errors may be made. Consequently, valuations may be inaccurate, exemptions may not be granted, and payments may not be correctly posted. Appeal procedures are designed to deal with such problems.

The appeal process is an integral part of a property tax system. It gives taxpayers opportunities to review their assessments and question accuracy and fairness. In the property tax, it is usually the taxpayer's responsibility to verify correctness of an assessment. Taxpayers do this by reviewing their assessments and appealing if they disagree with the property tax administration's judgment. The appeal process should be accessible to all taxpayers. Recommended practice is to erect a multi-step appeal process designed to solve simple problems inexpensively, provide a measure of independence from the assessor, have specialists resolve difficult valuation disputes, and reserve legal issues to the courts.

10.1 Current Situation

Rhode Island currently does not have an inexpensive, accessible, and well-structured appeal system. Although revaluation contractors routinely invite property owners to informally appeal their new valuations and although assessors invite taxpayers to come in and discuss their assessments, there is no legal requirement for taxpayers to initiate their appeals with assessors. Based on the compilation of property tax statutes prepared by the Department of Administration, the legal foundation for local boards of assessment review is unclear. In any event, the respective jurisdictions of those boards to alter assessments and of city and town councils to abate taxes seems blurred. (See, for example, chapter 44-27, concerning classification of farm, forest, and open space land.) There is no state-level valuation tribunal. The only clear avenue of appeal is to the superior court under sections 44-5-26 through 44-5-31.

There are some specialized appeal provisions as well. Appeal of motor vehicle assessments is to the local assessor or the Motor Vehicle Valuation Commission. Subsequent appeal may be made to the district court and the supreme court. Appeal of public service corporation assessments is to the Public Utilities Commission (44-13-13.1).

10.2 Recommendations

Recommendation 10-1. Review current statutes governing assessment appeals and tax abatements with the aim of developing an accessible, independent, and competent appeal system.

We recommend that all appeals be initiated with the assessor, generally following an informal conference. Informal conferences are an excellent opportunity to increase taxpayers' understanding of property taxation. They provide opportunities to ensure that records are correct and that valuations reflect all pertinent factors. They also serve to clarify differences of opinion about property value, which is useful should the property owner decide to file a formal appeal.

Appeal of the assessor's decision should be to a city or town appeal body. Appellants should not be allowed to bypass this body. We prefer a board appointed for the purpose, composed of people with relevant background, over city and town councils. Such boards will provide a measure of distance from local fiscal and political concerns.

We recommend that strong consideration be given to the establishment of a state-level valuation tribunal. Appeals of that body would be to the courts as now.

11. Public Information and Taxpayer Assistance

Effective public information and taxpayer assistance programs are integral to public acceptance of the property tax. Efforts to secure this acceptance should occur at all levels of government involved in property tax administration. Policy makers and tax administrators must communicate effectively with taxpayers. The rationale for the tax, how it is administered, and taxpayers' rights and responsibilities must be explained. There should be a focus on changes, such as those we are recommending.

Records should be open and available for public inspection unless confidential information is involved. An accessible, effective appeal system is required. Individual inquiries should be answered. The tax administration should demonstrate at every opportunity that the tax is being equitably administered.

Rhode Island assessors are justifiably proud of the level of public service they provide. Nonetheless, there are opportunities for improvement. People with public contact should be trained in public relations skills. Some assessors work in offices that are in poor condition, which tends to undercut the image of dedication and professionalism that their staffs need to convey. There is a notable lack of printed materials.

Recommendation 11-1. Develop printed materials of statewide application on such subjects as revaluations, tax relief, appeals, and deadlines.

Cities and towns could supplement these materials.

12. Ratio Study Findings

12.1 Purpose of Study

This section provides the results of our independent sales ratio study. Its purposes were to verify the State=s ratio studies, gauge the current quality of assessments in Rhode Island, and demonstrate the advantages of greater stratification.

Ratio studies provide the principal tool for measuring assessment performance. In such studies, sales prices provide surrogates for market values. Assessments are divided by sales prices to form assessment-sales ratios. Measures of central tendency indicate the overall level of appraisal (ideally 100 percent). Measures of dispersion indicate the equity of appraisals: the lower the measures, the better.

12.2 Source of Data

The accuracy of sales ratio studies rests on the accuracy of the underlying data. Rhode statutes, section 41-44-25 requires cities and towns to report information concerning real estate conveyances to the State within sixty days of recording. The State's sales abstract form D-1 (revised 6/93) has been designed for this purpose. The form provides for the names of the buyer and seller, type of property transferred, type of deed, conditions of sales, sale price and revenue stamps, and assessed value. If the sale occurred on before July 1, the previous year's assessed value is to be provided. If the sale occurred on or after July 1, the current assessment should be provided.

The State keys data from the abstract cards to form a sales data base used for its sales ratio and school aid studies (section 4.2.3). The Office of Municipal Affairs was able to provide us with a copy of this data base for the years, 1991 through 1994. In our studies we used sales prices of \$25,000 or more (we were concerned that smaller prices may not be reliable measures of market value). Since the object of a ratio study is to measure current assessment performance, we deleted sales that occurred before the most recent reappraisal year, e.g., 1991 and 1992 sales in a city that reappraised in 1993. Of course, this reduced sample sizes considerably in towns with recent

reappraisals. Finally, we deleted sales with assessment-sales ratios of less than 0.20 or greater than 2.00, since such extreme ratios often represent an invalid transaction for ratio study purposes and can distort uniformity measures.

As discussed elsewhere, some Rhode Island municipalities have established assessment ratios other than 100 percent for all or some classes. To facilitate meaningful comparisons among municipalities, assessment levels have all been adjusted to 100 percent, e.g. if the declared assessment ratio for a given town was 0.60, the assessed values in that town would be divided by 0.60 before calculation of sales ratios.

12.3 Ratio Study Statistics

We calculated the following sales ratio statistics:

1. Sales. Number of valid 1991-94 sales used in the analysis.
2. Median appraisal-sale ratio. Half of ratios will lie below this figure and half above. The median is less influenced by very low or high ratios than the mean or weighted mean.
3. Mean appraisal-sale ratio. This is the average of the ratios computed by summing all ratios and dividing by sample size.
4. Weighted mean appraisal-sale ratio. It is computed by (a) summing the appraisals, (b) summing the sales prices, and (c) dividing the first result by the latter. Also known as the aggregate ratio, this is the measure used by the State in computing the common level of assessment.
5. Coefficient of dispersion (COD). This is the premier measure of assessment uniformity within a class or group or property. It is computed by (a) subtracting the median from each ratio, (b) taking absolute values of the results, (c) summing the absolute values, (d) dividing by

sample size to obtain the average absolute deviation, and (e) dividing by the median and multiplying by 100 to express the result on a percentage basis. Thus, the COD expresses the average absolute percentage deviation from the median ratio. The lower the measure, the better. The International Association of Assessing Officers (IAAO) calls for assessors to strive for CODs of 10-15 for residential properties (depending on the average age and homogeneity of properties), 15-20 for commercial properties (depending on size and urbanization), and 20 or better for vacant land.

6. Price-related differential (PRD). This is an index of the equality in appraisal levels between low and high value properties. The closer the index is to 1.00, the better. Figures in excess of 1.00 tend to indicate "assessment regressivity," a condition in which higher value properties are *under*-appraised relative to lower value properties. Figures below 1.00 suggest "assessment progressivity," in which higher value properties are relatively *over*-appraised. Unfortunately, the figure involves a slight bias to the high side (perfect equality tends to generate figures slightly above 1.00). The IAAO calls for PRDs in the range of 0.98 to 1.03. When samples are reasonable large, figures outside of this range suggest either assessment regressivity or progressivity, an undesirable condition in mass appraisal.
7. Lower and upper 95 percent confidence limits for the median (LOW CL and UPP CL). One can be 95 percent confident that the aggregate assessment level (for both sold and unsold parcels) falls in this range.

12.4 Study Results

Exhibit 12-1 shows the results of the ratio study based on 31,683 usable sales. The overall median sales ratio for all thirty-nine cities and towns is 0.674. The 95 percent confidence limit for the median ranges from 0.668 to 0.681. The mean and weighted mean are higher, at 0.765 and 0.756, respectively. These statistics indicate that the actual level of assessment averages only two-thirds to three-quarters of the 100 percent standard.

On a statewide basis, measures of appraisal uniformity are dismal. The COD is 41.5 percent. This indicates that, on average, individual assessment ratios differ by 41.5 percent. Fortunately, the overall PRD (price-related differential) indicates no overall systematic bias based on value range.

The second panel of exhibit 12-1 shows performance measures by property type. Most notably, median ratios are much higher for multi-family and commercial properties than for one-family properties. On the other hand, vacant land ratios are significantly lower. As indicated by PRDs, assessments for multi-family, commercial, and vacant land properties are all regressive (higher-value properties are relatively under-assessed). Exhibit 12-2 displays medians and CODs by property type in bar chart format.

Exhibit 12-1. Rhode Island Sales Ratio Study Statistics: 1991-94 Sales

The third panel of the exhibit evaluates performance by value range. Properties that sold for less than \$75,000 have the highest assessment levels.

The last two panels of exhibit 12-1 (second page) show results for single-family properties by value range and years since the prior revaluation. Results by value range essentially mirror those noted above: properties that sold for less than \$75,000 have the highest ratios. Assessment levels and uniformity differ dramatically with years since the last revaluation. Among communities that reappraised in the last three years, the median sales ratio is 0.994 and the COD is 18.4. Among communities that have not reappraised for seven years or more, the comparable statistics are 0.539 and 28.3, respectively. Exhibit 12-3 compares the results graphically.

Exhibit 12-4 shows sales ratio statistics for single-family parcels by municipality, along with the date of last revaluation. The table shows generally good results for municipalities that have recently reappraised. Assessment levels for other communities vary with the nature of the economy and the property base and the years elapsed since the last reappraisal. A number of municipalities have not reappraised within the required 10 year time frame.

The reason why exhibit 12-4 often indicates acceptable CODs while exhibit 12-1 shows a very poor COD for single-family property (39.2) is that the latter aggregates all municipalities, so that dispersion is computed around the statewide median (0.656). This gives an accurate picture of the variation with which similar properties are appraised across the State, while exhibit 12-4 gives a more accurate picture of assessment uniformity within individual municipalities.

Exhibits 12-5 and 12-6 show plots of median sales ratios and CODs for single-family properties against number of years since the previous reappraisal. Cities that have not reappraised in the last 6-10 years consistently have the lowest median ratios. Several communities that have not reappraised in more than 10 years have comparatively high ratios, probably due to deflation over part of the time period since the last reappraisal. Exhibit 12-6 shows a general increase in CODs with number of

years since the last reappraisal, although the trend is far less consistent than that for the level of assessment.

Exhibit 12-2. Median and CODs by Property Type

Exhibit 12-3. Median and CODs by Revaluation Date: Single-Family Residential Properties

Exhibit 12-4. Single-Family Sales Ratio Statistics by City

Exhibit 12-5. Plot of Median A/S Ratio by Revaluation Date: Single-Family Residential Properties

Exhibit 12-6. Plot of COD by Revaluation Date: Single-Family Residential Properties

12.5 Conclusions

As would be expected in an environment of long and differing time lags between reappraisal, assessment performance in Rhode Island is poor on an overall basis. Assessment levels and uniformity differ greatly among municipalities, depending in good part on the time lag since the last revaluation. In general, commercial and multi-family properties are relatively over-appraised and vacant land is relatively under-appraised. All of these property types exhibit regressivity, as do single-family properties at the lower end of the value range.

On the positive side, uniformity for single-family properties often holds up quite well despite long reappraisal lags. The CODs for single-family properties displayed in exhibit 12-4 are, with some exceptions, respectable. Of course, the reliability of good performance measures depends on the accuracy of sales data submitted to the State. As previously discussed, the State is not able to monitor data accuracy.

In any case, assessment performance in Rhode Island could be greatly improved by more frequent reappraisals, which would produce more realistic assessment ratios and better equity between and within types of properties.

13. Implementation Strategy

The main improvements in the Rhode Island property tax system that we recommend are:

- X Greater, more effective state government involvement in property tax administration
- X More frequent revaluations
- X Greater rationality in exemptions
- X Either simpler motor vehicle assessment procedures or a different form of motor vehicle taxation

We hope the General Assembly will find merit in many of our recommendations and will commit to a program of improvements in the Rhode Island property tax system. This will require leadership and an implementation strategy. Although it is premature to identify a specific strategy, its elements would include:

- X The General Assembly, the Governor, the Department of Administration, and the leaders of Rhode Island's cities and towns should make a firm, long-term commitment to improving the state's property tax system, so that there will be an environment for success. Clearly articulated policy objectives would be most helpful.
- X The General Assembly should establish a proper legal framework by enacting the legislative recommendations contained in our report, "Analysis of Assessment Practices."
- X The staff of the Department of Administration responsible for property tax supervision should be augmented in line with our recommendations as soon as possible.
- X The Department of Administration should improve the equalization studies used in the distribution of aid to schools. Assessors should be made to supply the data needed for the studies in a timely manner.

- X Each assessor, with assistance from the Department of Administration, should develop a revaluation strategy, present it to her or his superior(s), and begin to carry it out after it has been approved. The strategy should identify the specific approach that would be taken and the resources that would be needed, including funding, staffing, training, computer support, and contractors= services. A timetable also should be developed.

- X Each city and town should begin now to set aside the resources that it will need to carry out more frequent revaluations. As previously mentioned, we do not believe any incremental costs associated with our recommendations are unwarranted or unattainable. More frequent revaluations may require additional start-up funds, but these can be amortized, as some municipalities already do. Some cost savings can be anticipated. There will be some revenue generation possibilities. In addition, charge backs to tax districts could be considered. Finally, there will be the non-monetary benefits of greater certainty in the system and less political upheaval.

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