

# MAINE STATE LEGISLATURE

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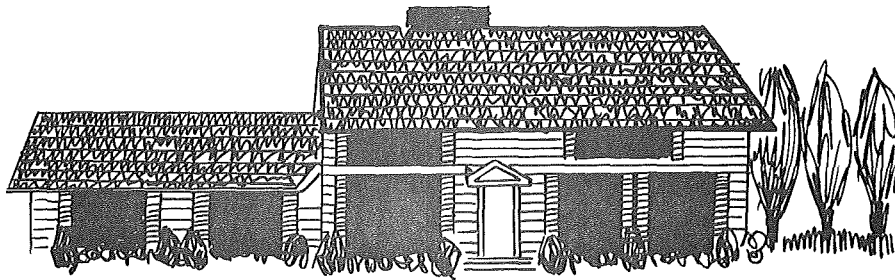


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*The Report  
Of The Select Committee  
On State Property Tax Valuation*

**Is The State Valuation  
Accurate ?**



*February 1977*



JOINT SELECT COMMITTEE  
ON STATE PROPERTY TAX VALUATION

John E. O'Donnell, Chairman  
Alfred Lucci, Vice Chairman  
Gerald A. Clark

John D. Coupe  
Rep. Frank Drigotas  
Norman A. Gosline  
Eugene Paradis

Is the State Valuation Accurate?  
A Summary of the Committee's Report.

1. The state valuation is the estimate by the Property Tax Division of the Bureau of Taxation as to the full market value of each locality's property. Our conclusions as to the state valuation accuracy are that it is:

- a. Conservative;
- b. Reasonably accurate; and
- c. Will improve with each year.

Still, we find that significant changes are needed.

2. The Property Tax Division should be provided with sufficient personnel and other resources to more effectively carry out its ongoing duties and to undertake necessary improvements in its state valuation procedures. This report details the needed improvements and lists the personnel sufficient to accomplish them.

3. Our investigations show that the local assessor needs and is desirous for state assistance in meeting statutorily prescribed local assessing standards. Our report specifies how this assistance should be provided. This is of great importance to improvement in the state valuation. The Property Tax Division relies heavily on recent real estate sales in estimating full market values. But no matter how accurate this sales information is, if the local assessor's valuations are inaccurate, the state valuation will be directly influenced.



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February 7, 1977

Legislative Council  
108th Legislature  
State House  
Augusta, Maine 04333

Members of the Council:

The committee in carrying out its responsibilities under Study Order, S.P. 610, was privileged to have the opportunity to consult with many of the nation's experts in property taxation.

With the financial assistance of the Ford Foundation and the personal assistance of Mr. David G. Clark, a project specialist at the Ford Foundation, the committee was able to meet with Dr. Dick Netzer, Dean of New York University's Graduate School of Public Administration.

Further, we attended a seminar at the Lincoln Institute of Land Policy in Cambridge, Massachusetts. During this seminar the following persons with experience in property tax procedures addressed their remarks to potential problems in the study of Maine property assessing procedures:

1. Mr. Robert Kleine, Senior Resident in Public Finance with the Advisory Commission on Intergovernmental Relations, Washington, D.C., and (on leave) Director of Revenue and Tax Analysis of the State of Michigan, including service as Staff Director of the Administrative Task Force on Property Tax Revision for the State of Michigan.
2. Mr. Michael O'Shea, Deputy Executive Director, State Board of Equalization and Assessment, State of New York, and earlier Director of Appraisal Services for the New York Central Railroad.
3. Mr. Arlo Woolery, CAE, Executive Director of the Lincoln Institute of Land Policy, Cambridge, Massachusetts, and earlier Director of the Department of Property Valuation of the State of Arizona.
4. Mr. Charles C. Cook, P.E., Director of Education and Research for the Lincoln Institute of Land Policy, co-designer of the Massachusetts 1976 Equalization Study, and earlier President of a consulting firm engaged in development of assessment and equalization systems.

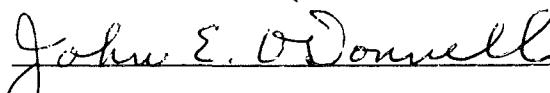
5. Mr. Robert Lathrop, Commissioner, Tax Commission, State of Vermont.

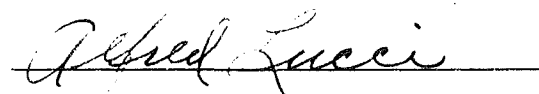
After review of credentials and availability of qualified consultants, the Committee interviewed C.B.M. Inc., and Thomas L. Jacobs and Associates as prime candidates for the assignment. The Committee voted to hire Thomas L. Jacobs and Associates and has worked closely with them in accomplishing the objectives of the study.

The concerns and suggestions of the individual committee members were communicated and discussed with Mr. Jacobs and his staff members in the formal and informal meetings prior to and during the consultants' study and the Committee concurs in and adopts the Consultant's report.

Our committee wishes to acknowledge the Lincoln Institute of Land Policy and their contributing personnel, the valuable assistance received from the Office of Legislative Assistants, especially James A. McKenna, and the Bureau of Taxation, especially Norman P. Ledew, Director of Property Tax Division, who has demonstrated a dedicated interest in improving the operation of the Division. We especially extend our appreciation to the Ford Foundation, whose financial assistance made possible (in part) the extensive analysis upon which the conclusions of this study are based.

Sincerely,

  
John E. O'Donnell, Chairman

  
Alfred Lucci, Vice Chairman

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APPENDIX C: Thomas L. Jacobs and Associates, "State of Maine Report with Recommendations on the Procedures and Results of the State Property Tax Valuation".





## 1. INTRODUCTION

Of all the issues that swarm about the Uniform Property Tax (UPT), the state levied property tax in Maine - Does the state property tax erode the local control of schools? Is the tax too burdensome? Are property taxes generally regressive? - perhaps the most basic is whether or not the UPT is based on an accurate valuation of property? Does the state's Bureau of Taxation correctly judge the full value of each locality's property in arriving at its state valuation?

The purpose of this committee is to determine just how accurate is the state's valuation of property and to suggest what improvements are needed.<sup>1/</sup>

Our general conclusions are that while the state valuation is conservative and reasonably accurate and will improve with each year, there are still significant changes needed. Some of these changes are administrative, some demand legislation and a few need modest increased funding.

But before we describe exactly what must be done, it is important to understand clearly the role of the state valuation and the current standards followed by the state and each locality.

## 2. WHAT IS THE STATE VALUATION?

The state valuation is the Bureau of Taxation's total estimate of the market value of all property in the state. The state has been making this estimate for many, many years and it is used primarily today:

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<sup>1/</sup>  
See Appendix A, Study Order S.P. 610.

- A. As the valuation against which the mill rate of the Uniform Property Tax (UPT)<sup>2/</sup> is levied; and
- B. As a factor in the equations used to equalize the distribution of financial assistance to local governments for purposes such as health and welfare, road maintenance, state-municipal revenue sharing.

The Maine Constitution requires that any property tax must be assessed at its market value ("just value")<sup>3/</sup>. Why does the state feel it has to make its own estimates rather than simply adding up the results of each local assessor?<sup>4/</sup> There are two main reasons:

- A. Many towns do not frequently update the valuations of their property; and
- B. Most towns do not assess at full market value but rather fix the value of each house at a percentage of its true value. This "assessment ratio" is often quite low<sup>5/</sup> and the lower it is the less likely it is to be correct.<sup>6/</sup> The crucial importance

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<sup>2/</sup> There are currently two state property taxes: The Uniform Property Tax (UPT), which has been used to fund approximately 50% of the cost of education, and the Local and State Government Tax, which is used to tax the Unorganized Territory to pay for their municipal services.

<sup>3/</sup> Maine Constitution, Article 14, section 8.

<sup>4/</sup> There are no local assessors in the Unorganized Territory and the state would assess the property there whether or not there was an UPT or equalizing financial assistance formulas.

<sup>5/</sup> This is one reason why one town may have a tax rate higher than a town with similar property and similar expenses. If one local assessor values his town's property at 40% of its market value and the other town assessor uses a 80% ratio, then the former town's mill rate will be double the latter town's rate.

<sup>6/</sup> In Massachusetts a study has shown that towns and cities which assess residential properties near their full value have a five times better chance of avoiding inaccuracies (e.g., undervaluing expensive properties and overvaluing poor properties) than those localities assessing at the lowest assessment ratios. See Lincoln Institute of Land Policy, A Study of the Interrelationship of Massachusetts Assessment Level and Assessment Quality (July 20, 1976

of at least beginning with a full value estimate is explained at length in Appendix B.

So the State makes its own assessments of the market value of Maine property. How is it done?

3. HOW THE BUREAU OF TAXATION ARRIVES AT THE STATE VALUATION.

The state valuation is now updated every year. It consists of:

- A. The Bureau's individual valuation of each piece of property in the Unorganized Territory; and
- B. The Bureau's gross valuation of each of 497 municipalities in Organized Territory.

In the Unorganized Territory the Bureau is the "local" assessor and has achieved fair accuracy.<sup>7/</sup> The other question before this committee was whether the Bureau's "gross" valuation techniques in the Organized Territory were accurate. The basis of the Bureau's estimate is the sales-ratio study. This is how the Bureau did the state valuation for April 1, 1977:<sup>8/</sup>

- A. The state valuation of the municipalities is determined basically by comparing sales information with valuations used by the local assessor. It takes approximately one year for the field personnel to cover all 497 municipalities. The Bureau's personnel compiled from the local Registry of Deeds information on recent sales transaction.

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<sup>7/</sup> The Bureau's assessment ratio for the Unorganized Territory is 71%, which is above that currently required to be achieved by all localities by 1979. For a further explanation of this rating, see Section 4, TO WHAT STATUTORY STANDARDS ARE THE LOCAL ASSESSORS HELD?

<sup>8/</sup> This description is based upon a more complete version contained in the Bureau of Taxation's 1976 memo to the committee, "The Maine State Valuation".

B. The field personnel took the sales information to each municipality for discussion with the local assessors. The assessors then advised the Bureau as to those sales which were not representative of fair market sales, such as family sales, and sales containing good will or personal property or sales with abnormally inflated prices. These sales were eliminated.

C. A sales ratio study was performed on the remaining sales:

(1) A sales ratio study lists the sales in ascending order according to the percentage of valuation of the sales price to the assessed value. From this study an average was determined.

(2) Where sufficient sales were available and where sales represented the various categories of property located within the municipality, this average ratio was then applied to the total municipal valuation of the municipality as reflected in the municipal valuation book. For example, if it was found that the average ratio in the sales ratio study was 50%, the total valuation arrived at by the municipal assessor would be doubled to obtain the 100% market value state valuation.

(3) The sales study was broken down into the various categories of property in the municipality, such as seasonal property, residential property, commercial property and farmland. An average ratio for each of these groups was obtained where necessary because of the different ratios used by assessors for various categories of property. In other cases it was necessary for the fieldman

to apply a judgment factor as to the ratio. which was being applied to such areas as commercial properties, woodland properties, etc., where there was inadequate sales information.

(4) In those municipalities affected by the Tree Growth Tax Law, the values used for land classified under that Law are the productivity values established through the statutory formula. In many woodland towns and plantations this makes up a very large share of the State Valuation.

(5) Each of these studies, upon completion, were forwarded to the central office of the Bureau where they were reviewed for consistency and uniformity to ensure that the work of the various field personnel reflected an equalized valuation in each case. Adjustments were made by the office in those areas where sales information was lacking and it was sometimes necessary to use information on values from surrounding areas. All municipalities in a geographical or economic area were reviewed together to determine that increases reflected in the sales study were uniform for the area and reflected the general inflationary pattern.

(6) The Bureau then met with each local assessor to discuss that municipality's proposed state valuation and to find any possible errors. A final proposed state valuation was arrived at and each municipality had 45 days to appeal to the Municipal Valuation Appeals Board.

This appeals process completed the 1977 state valuation. It was filed with the Secretary of State in January 1977. It was accomplished by 7-9 fieldmen and a field supervisor. Of the 497 municipalities, only 36 appealed their valuation to the Appeals Board.

From this description it is clear that no matter how accurate the Bureau's sales information, if the local assessor's valuations are poor, the state valuation will be directly influenced. Before listing our findings and recommendations, it is necessary to explain exactly what standards, by statute, the local assessor is held to.

4. TO WHAT STATUTORY STANDARDS ARE THE LOCAL ASSESSORS HELD?

It is very important to affirm the relationship of accurate valuations by the local assessor to the general accuracy of the state valuation. Indeed, many of our conclusions and recommendations speak directly to this relationship. By statute the local assessor must meet the following standards:<sup>9/</sup>

A. Minimum assessment ratios. By 1979 each local assessor must value property at no less than 70% of its full market value.

B. Maximum assessment quality rating. By 1979 the local assessor must achieve an assessment quality rating of no less than 20. What is a quality rating? How is it arrived at? This is important to understand because it reveals exactly how the property tax can be an inequitable levy. The assessment quality rating is another name for coefficient of dispersion. This is how it is determined:

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<sup>9/</sup> See 36 MRSA §§ 327,328.

# HOW TO FIND THE TYPICAL ASSESSMENT ERROR: AN ILLUSTRATION<sup>10/</sup>

Suppose we have four houses, each of which sold for \$30,000. The assessment rolls show the homes assessed at \$10,000, \$16,000, \$22,000, and \$28,000. (Remember, they should have been assessed the same.) The assessment-sales price ratios for the three would be:

$$\begin{array}{ll} 1) \quad \frac{\$10,000}{\$30,000} = 33\% & 2) \quad \frac{\$16,000}{\$30,000} = 53\% \\ 3) \quad \frac{\$22,000}{\$30,000} = 73\% & 4) \quad \frac{\$28,000}{\$30,000} = 93\% \end{array}$$

To find the median, we rank the four in order, from highest to lowest:

93  
73  
53  
33

Since there are an even number of ratios, we take the middle two and find the halfway point between them:

$$\begin{array}{r} 73 \\ + 53 \\ \hline 126 \end{array} \quad 126 \div 2 = 63$$

Thus the median assessment-sales price ratio, or common assessment level, is 63 percent.

Now we want to find the average deviation from this common level — that is, how much, on the average, each individual assessment was off the mark.

First we find the difference between the common level — the average assessment-sales price ratio — and the ratio for each individual assessment.

$$\begin{array}{r} 63 \quad 63 \quad 63 \quad 63 \\ - 33 \quad - 53 \quad - 73 \quad - 93 \\ \hline 30 \quad 10 \quad - 10 \quad - 30 \end{array}$$

(We can disregard plus or minus signs.)

Next we find the average of these differences.

$$\begin{array}{r} 30 \\ 10 \\ 10 \\ 30 \\ \hline 80 \end{array} \quad 80 \div 4 = 20$$

Thus the average assessment error is 20 percent.

Finally we express this average difference as a percent of the common level:

$$20 \div 63 = .32$$

<sup>10/</sup> Brandon, Rowe, Stanton, Tax Politics 216 (1976). This analysis uses the median ratio to reflect the assessment quality rating. This practice parallels the Committee's Recommendation No. 4. See Sections 6, THE COMMITTEE'S RECOMMENDATIONS.



Thus, the assessment quality rating is 32. In other words, the typical assessment was 32 percent higher or lower than it should have been. This means there could be a 64 percent gap between the assessments of two homeowners who should have been assessed exactly the same.

C. Annual sales ratio studies. Local assessors must perform annual sales ratio studies and must inspect each piece of property at least every four years.

Each of these local assessment standards are immensely important to the accuracy of the state valuation. Is the mandated quality assessment rating of 20 unduly rigorous? Here is what the authors of Tax Politics, a citizen's guide to taxation say: <sup>11/</sup>

The lower [the quality assessment rating] is, the more uniform assessments are generally. How low should it be? If it is 10 or less, the assessor is doing a respectable job. If it is more than 15%, he is doing poorly. Experts consider a typical assessment error of between 10 percent and 15 percent, plus or minus, to be acceptable. Some go as high as 20 percent, mainly in compromise to what they perceive as the situation today. If it is over 20 percent, the sooner you get a new assessor, the better. [An assessment quality rating] of over 20 means that every taxpayer, on the average, is assessed 20 percent too high or too low, and there are taxpayers who are paying twice as much tax as others even though they should be paying exactly the same.

Assessors who get their typical error down to 5 percent to 10 percent deserve applause. Since market values change constantly, there are genuine problems in cutting the error much below that.

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<sup>11/</sup> Brandon, Rowe, Stanton, Tax Politics 216-217 (1976).

The statutory requirement of an assessment quality rating of 20 is not effective until 1979. Here are recent average quality ratings, based on the 1975 state valuation, for Maine's counties: <sup>12/</sup>

Androscoggin	39.6
Aroostook	49.9
Cumberland	25.2
Franklin	31.3
Hancock	38.8
Kennebec	32.0
Knox	41.0
Lincoln	39.2
Oxford	26.9
Penobscot	38.2
Piscataquis	36.8
Sagadahoc	37.2
Somerset	38.6
Waldo	42.0
Washington	44.0
York	<u>22.1</u>
Average of Counties	36.4

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<sup>12/</sup> Prepared by the Bureau of Taxation; 70 municipalities had insufficient sales for assessment quality rating purposes.

Other statutory local assessing standings - such as required tax maps, uniform accounting systems, or mandatory use of electronic processing - are non-existent. At one time such standards were required by the Bureau of Taxation but local reluctance to have their affairs directed from Augusta results in their repeal.<sup>13/</sup>

With this introduction to the procedures of the state valuation and the local assessing standards which directly affect the accuracy of the state valuation, we can now turn to the committee's main conclusions and recommendations.

#### 5. THE COMMITTEE'S MAIN CONCLUSIONS

The committee's conclusions result from our lengthy schooling in the procedures used by the Bureau of Taxation to reach the state valuation, from our consultations with many of the country's leading property tax experts and from our close working relationship with Thomas L. Jacobs and Associates, the consultants employed by the committee.

Appendix C is the report of Jacobs and Associates to the committee. [Hereafter referred to as the Jacobs Report.] We endorse its analyses, conclusions and recommendations. All interested persons are urged to read it in its entirety.

For this report the committee will summarize the main conclusions and recommendations of the Jacobs Report but will also include other conclusions and recommendations that grew out of the committee's many months of study.

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<sup>13/</sup>

See Public Laws, Chapter 545.

A. Conclusion No. 1. The state valuation produced by the Bureau of Taxation seems reasonably accurate. Greater accuracy, however, is needed and is possible with minimum expenditure of money. See Jacobs Report pages 21-22.

B. Conclusion No. 2. The Bureau's method of arriving at the full market value of each locality's property by adjusting the local assessor's valuations according to recent sales information (see Section 3 of this Report) is sound and proper. However, even greater accuracy could be achieved by:

- (1) more accurate classifications of property according to their use (residential, seasonal, etc.);
- (2) a series of on-location appraisals by state personal to supplement inadequate sales information.

See Jacobs Report, pages 22-29.

C. Conclusion No. 3. There are two questions concerning the accuracy of state valuation: Is it inflated? Is it uniform?

- (1) The state valuation seems conservative in representing the full value of taxable property in the respective municipalities. Such conservatism promotes stability in the property tax base.
- (2) The state valuation seems reasonably uniform among most of Maine's communities.

See Jacobs Report, pages 29-38.

D. Conclusion No. 4. In the perceptions of local assessors there is little dissatisfaction about the state valuation and the job the Bureau of Taxation is doing. However,

- (1) The local assessor, whose accuracy is very important to the accuracy of the state valuation, is desirous for

state assistance in meeting the statutorily prescribed local assessing standards (see Section 5 of this report); and (2) The Bureau needs additional staff if the accuracy of the state valuation is to be improved.

See Jacobs Report, pages 38-40.

E. Conclusion No. 5. The Bureau of Taxation's assessment of all property in the Unorganized Territory is considerably below full market value (an assessment ratio of 71%). While this is slightly better than the standard the local assessor will be held to by 1979, there is still need for improvement.

See Jacobs Report, page 40.

F. Conclusion No. 6. If property taxes are to be accepted by the Maine public, not only is general accuracy necessary but also needed is an improved means of appeal of questionable assessments and more informative tax bills.

## 6. THE COMMITTEE'S RECOMMENDATIONS

A. Recommendation No. 1 -- Complete support should be extended by the State and local government officials to a commitment and practice of firm enforcement of the legislation assessment standards (see Section 5 of this report). Concurrently, the Property Tax Division should design and carry out a more extensive program of technical assistance to the local assessors. See Jacobs Report, pages 57-58. This recommendation will necessitate expenditures totaling this biennium \$260,000 and the creation of 10 new positions. Of all our recommendations, the Committee places the highest priority on this one and will introduce emergency legislation for the necessary appropriation.

- B. Recommendation No.2 -- The Property Tax Division should establish procedures and instructions to require that sales prices are compared with the assessments of the properties just preceding the date of the sale. See Jacobs Report, page 46.
- C. Recommendation No.3 -- Statutory requirement should be established for the Property Tax Division to conduct annual assessment-sales ratio studies applicable to each municipality or assessing jurisdiction, and to publish the results of these studies. See Jacobs Report, pages 46-47.
- D. Recommendation No. 4 -- The Property Tax Division should incorporate the results and analyses of the sales ratio studies in an information system and exchange with the respective municipalities. See Jacobs Report, pages 46-47.
- E. Recommendation No. 5 -- The Property Tax Division in reporting the results of sales ratio studies should use the median ratio to reflect the over-all level of assessments, and the assessment quality rating (coefficient of dispersion: one-half the interquartile range divided by the median) to reflect the quality of assessments. See Jacobs Report, pages 47-48.
- F. Recommendation No. 6 -- The statutory assessment standards for rating of assessments should be adjusted to provide for a maximum assessment quality rating of 18 by 1979 and thereafter, measured by the coefficient of dispersion. See Jacobs Report, pages 47-48.
- G. Recommendation No. 7 -- The Select Committee on State Property Tax Valuation reaffirms the absolute necessity for a certified statement of the consideration in all real estate transfer transactions, to be provided in an appropriate form. See Jacobs Report, pages 48-49.

H. Recommendation No. 8 -- Legislation should be adopted to require that all municipalities classify all parcels of property on their assessment roll according to the standard property classification system and any additional special categories that are significant in their municipality, and that the municipalities report to the State Bureau of Taxation the totals of assessed values for these classes on their municipal valuation returns. The standard classification system should include but not be limited to the following classes:

Residential improved

Residential vacant

Commercial improved

Commercial vacant

Industrial improved

Industrial vacant

Agricultural improved

Agricultural vacant

See Jacobs Report, pages 50-51.

I. Recommendation No. 9 -- The Property Tax Division should make full value appraisals of a sample of properties, where required in municipalities where there are an inadequate number of sales to produce a valid assessment-sales analysis. The goal, as in cases where there are sufficient sales, should be a sample of about 4% of the number of parcels in the municipality, which in the municipalities concerned would be a combination of sales and appraisals. See Jacobs Report, page 52.

J. Recommendation No. 10 -- Legislation should be adopted to assign responsibility to the Property Tax Division to appraise at full value all industrial property in the state with a value

over \$1,000,000 and all operating utility property subject to taxation, to require the Property Tax Division to certify such individual full value appraisals to the municipalities where the properties are located, to require the municipalities to use these appraisals as the basis for their assessed value of the individual properties, and to provide for the financing of this appraisal service from State funds. See Jacobs Report, pages 54-55. This recommendation will necessitate a total expenditure for the next two years of \$300,000 and the creation of 10 new positions. (An alternative approach deserving further consideration would be to tax public utilities through a state excise tax with revenues returned to the appropriate communities. The Committee did not have time to properly consider this approach.)

K. Recommendation No. 11 -- The Property Tax Division, in assessing property in the Unorganized Territory, should update its appraisal standards to more nearly approximate current values, and should institute systems to maintain the values at a more current level. See Jacobs Report, pages 55-56. This recommendation will necessitate a total expenditure for the next two years of \$60,500 and the creation of two new positions.

L. Recommendation No. 12 -- The Property Tax Division should be provided with sufficient manpower and other resources to effectively carry out its on-going and expanded duties -- at a level to fulfill its increased workload and to accomplish the necessary improvements in property tax administration. See Jacobs Report, pages 57-58.



M. Recommendation No. 13 -- A review should be made of the classification and compensation of appraiser type positions in the Property Tax Division, to assure that they are identified and compensated on a basis that will attract and keep personnel with the required capabilities. See Jacobs Report, pages 57-58.

N. Recommendation No. 14 -- An improved citizen appeals process should be instituted, whereby if the assessor refuses to make the abatement (adjustment in a citizen's tax bill) asked for, the citizen may appeal directly to the State Board of Assessment Review and, if still not satisfied, to the Superior Court. To further increase taxpayer awareness each locality's tax bill should include the assessed valuation of the taxpayer's property, the tax rate, the amount of tax due and a statement indicating the ratio or percentage of full (100%) value certified to the Bureau of Taxation and used in determining the assessed value.

O. Recommendation No. 15 -- When time and personnel permit the Bureau of Taxation should provide Maine's smaller communities with a revaluation service. See Jacobs Report, page 57.

## 7. IMPLEMENTATION OF RECOMMENDATIONS

Many of these 15 recommendations will require legislation. The total appropriations necessary to fund them for the next two years are estimated at \$620,500. When one considers that the property tax produces approximately \$271 million per year and that the Property Tax Division's administrative costs (even with cost of this report's recommendations) would represent about  $\frac{4}{10}$  of 1% of that amount, therefore, the cost to improve the state and local valuations is completely justified.

Some recommendations can be implemented administratively by the Bureau of Taxation and we have been assured that their adoption is currently under way or will be in the immediate future.

The Committee is preparing two bills to carry its recommendations to fruition:

1. An emergency appropriation for personnel to immediately assist the local assessor (see Recommendation No.1); and
2. An omnibus property tax assessment reform.

We would caution against expectations of immediate and dramatic improvements in assessments. Change will take time. If adopted, the recommendations will begin to have an impact with the 1979 state valuation. It is important to note that the sequence of events for the 1978 valuation have commenced as illustrated below:

1978 State Valuation<sup>14/</sup>

1. The sales information used by state assessors<sup>15/</sup> is from October 1975 to September 1976 sales;
2. This information is applied against the municipal assessment records of April 1, 1976;
3. The state valuation is then filed with the state, January 1978;
4. Thus, the taxes based on the state valuation are affected in the following ways:

(a) Municipalities: the Local and State Government Tax from July 1, 1978 - June 1, 1979;

(b) County taxes: January 1978 - December 1978;

(c) Uniform Property Tax (UPT): July 1, 1978 - June 30, 1979.

<sup>14/</sup> For a detailed description of how the Property Tax Division compiles each state valuation, see above, Section 2, WHAT IS THE STATE VALUATION?

<sup>15/</sup> For a description of how the Property Tax Division discards deceptive property sales, see Appendix B.

8. CONCLUSION

As the recommendations of this report become fully implemented, the state valuation (and local assessing practices) will continue to improve in accuracy. Such accuracy will bring a greater degree of equity to the tax burden each of us must bear.

If property taxes are to be debated as a means of raising revenue, let that debate begin not with whether or not the tax is properly administered but with whether an accurate property tax is a proper source of state or local funds.

APPENDIX A

Senate Paper 610

WHEREAS, state valuation has increased since 1968 from \$2,820,000,000 to \$4,649,000,000, an average of 17% per biennium; and

WHEREAS, predictions by the Bureau of Property Taxation indicate significant future increases in value; and

WHEREAS, there is heavy reliance in Maine statutes on state valuation for distributing more than \$175,000,000 each year in grant-in-aid programs, including education; and

WHEREAS, in a democratic society, the public must have confidence in the accuracy and validity of the valuation base used for taxation and for distribution of state financial resources; and

WHEREAS, there has been no adequate review in recent years of the procedures used by the Bureau of Taxation in establishing state valuation; now, therefore, be it

ORDERED, the House concurring, that the Legislative Council be authorized to study the subject of this order either through the Joint Standing Committee on Taxation or through the establishment of a Select Committee on State Property Tax Valuation comprised of 8 members to be constituted and appointed as follows: One member of the Senate who serves on the Committee on Taxation to be appointed by the President of the Senate; one member of the House who serves on the Committee on Taxation to be appointed by the Speaker of the House; 3 municipal officials, representing various sized communities and various geographical areas, one of whom shall be representative of a so-called high valuation town, and 3 members of the general public, all of whom shall be appointed by joint agreement of the President of the Senate and the Speaker of the House; and be it further

ORDERED, that whichever committee is selected to conduct the study shall:

1. Review the procedures by which state valuations are established;
2. Review the validity of the state valuation with respect to a representative sampling of communities;
3. Review the need for a sales certificate to be filed with all real estate transactions;
4. Report its findings to the Governor and the Legislature no later than January 1, 1977 along with recommended administrative action and legislation to implement its findings; and be it further

ORDERED, that whichever committee is selected by the Legislative Council to conduct this study shall be directed to employ outside professional assistance in the implementation of this order and all departments of State Government shall cooperate with the committee in the pursuit of its assigned task; and be it further

ORDERED, that if the Legislative Council establishes the Joint Select Committee on State Property Tax Valuation to conduct this study, that committee shall hold its organizational meeting upon the call of the president and shall choose a chairman from among its membership at that time; and be it further

ORDERED, that if the Legislative Council selects the Joint Select Committee on State Property Tax Valuation to conduct this study, the members of that committee shall serve without compensation, but may be reimbursed for their reasonable expenses in attending meetings, procuring supplies, correspondence and other related and necessary expenditures....

## APPENDIX B

This discussion of how an assessor assigns values to different pieces of property was prepared by the Bureau of Taxation (1976).

### A Discussion of "values" Used For Property Tax Assessments

The Maine Constitution states that property, real and personal, shall be assessed according to its "just value." The statutes provide a definition of "just value" by stating that, in the assessment of property, assessors are to define this term in a manner which recognizes only that value arising from presently possible land use to which the particular parcel of land being valued may be put. The assessors must take into consideration the effect on value of any enforceable restrictions of land use which shall include but are not limited to zoning restrictions, subdivision restrictions and any recorded contractual provisions limiting the use of the land. The just value of land is deemed to arise from and is attributable to legally permissible use or uses.

Sales prices do not always represent fair market value. For example, a forced sale, an uninformed sale, or a sale during a period of market boom or depression will not indicate the fair market value of property. In 1935 the Law Court, in the case of Sweet v. the City of Auburn, said that value as used by the assessors should be fairly constant and not subject to the excessive ups and downs of boom or depression. This decision was a great help to assessors when there was no effective real estate market and when property was literally being given away. The same reasoning should restrain assessors from increasing assessments unreasonably during brief periods of abnormally high selling prices.

The court decision referred to does not, of course, prevent a board of assessors from changing any or all established valuations when the facts warrant such change. More important than arriving at an exact value for any particular property is the assessing of all taxable property within the municipality equitably and without discrimination. The aim of property taxation is to apportion the cost of government among property owners on the basis of the value of their property. Whether the assessors in a municipality value property in token manner, or whether they value it more realistically, is not too important providing all property in the municipality is valued on the same basis. However, consistently equitable token valuations are rare as is demonstrated by the many adjustments which must be made when valuations are changed to a more realistic basis.

It is essential that the same kind of value be the basis for all property assessments, both real and personal, to assure equalization. With respect to real estate, realistic prices as of the time of assessment are recommended. These will provide the valuation stability essential to real property assessment and can be considered a "full value assessment." As a practical matter there must be some stability since real estate has a long life. Relatively few properties sell each year and assessors do not have the facilities to examine each parcel each year.

It makes little difference, technically, whether property is valued at a high or low assessment ratio as long as there is no discrimination. However, it is impossible to have equitable valuations unless the appraisals have first been made on the basis of full value. Thus, although the tax bill may be the same, the extra step involved in having a fractional valuation can be a source of arithmetic error. There is a real advantage in valuing property more nearly at its "just value". That is the narrower the margin between the assessed value and the "just value," the less likelihood there is for discrimination, intentional though it may be.

It is not possible to assess property equitably in mass if the method used is based primarily on "windshield" inspections. Thus, the more debased the valuations are in a town the more likely properties of like value are to have different assessed values. For instance, if it is the intention to value all \$10,000 properties at \$3,000, it will be discovered that some of these are assessed as high as \$5,000 and some but half as much.

The assessor must, however, do a better and more careful job to assess at full value, since he does not have a wide margin or cushion to conceal poor valuations. But after all, the law does not envision poor assessment practices; the law expects valuations which will correctly and fairly divide the cost of government in accordance with the value of taxable property owned.

The previous paragraphs have discussed "value," the advantages of assessing at full value, and the dangers of low valuations. These dangers are real and it is unfortunate that most taxpayers do not realize that they are the losers. With low assessed valuations the taxpayers have little basis for maintaining a complaint as to their specific assessment when that assessment is less than the just value of the property involved, unless the taxpayer can show discrimination. Incidentally, discrimination is not easy to prove to a court, since a comparison with another or even a dozen properties may be considered insufficient in showing that there is a pattern in which the appellant is out of line.

Peculiarly enough, low valuations or low assessment ratios have been the practice in this State. Beginning over a hundred years ago, valuations were intentionally debased for one purpose, escaping from a part of the State Tax. This worked in favor of those towns debasing their valuations at first, until other towns did likewise. This is no longer true since the Bureau of Taxation became aware of those practices many years ago through State Valuation studies.



Since fair market value of property is taken as the measure for tax valuations, no difficulty would arise were each item of property sold regularly under normal conditions. Unfortunately, this is not true. Only a fraction of the property in a municipality is sold in any given year, or even over a period of years, and some sales that occur are not "normal"; that is, there are some sales where a peculiar reason renders the indicated sale price unreliable.

Thus it is necessary, if an equitable assessment is to be obtained, to have some system whereby the fair market value of property can be determined in the absence of actual sales figures. How, for example, can the fair market value of a farm be determined when the farm has remained in one family for 75 or more years? A typical situation is the same assessed value of the farm is carried year to year with no adjustments made for enhanced or lessened value. However, the valuation of other properties which are sold are adjusted as sales occur. As a result, the entire scheme becomes more and more disjointed with increasing inequitable assessments.

The simplest method of determining the just value of all property within the municipality is by classifying the property into a few well defined categories. Unit values should be established for each of those categories based on studies of reliable sales and construction costs and then applying these unit values to all similarly situated properties. It will enable the assessors to explain to dissatisfied taxpayers why their particular valuation was fixed at a certain amount.

The study of all the market data available in each municipality is essential. The study will show conclusively the relationship of the assessed value to fair market value (assessment ratio) and also what the likely spread (quality) is in valuations by location and dollar value.

It is agreed that assessed valuations cannot be precise since they are based on opinion but there should be some limit beyond which it is obvious that the assessment is not equitable or "in accordance with just value."

APPENDIX C

STATE OF MAINE  
REPORT WITH RECOMMENDATIONS  
ON THE  
PROCEDURES AND RESULTS  
OF THE  
STATE PROPERTY TAX VALUATION



THOMAS L. JACOBS & ASSOCIATES, INC.

Chicago, Illinois

December, 1976

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December 30, 1976

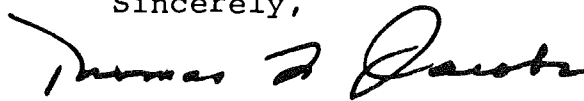
Mr. John E. O'Donnell, Chairman  
Select Committee on State  
Property Tax Valuation  
State House  
Augusta, Maine 04330

Dear Mr. O'Donnell:

We are pleased to submit our report with recommendations on the procedures and results of the state valuation. The specific findings and recommendations comprise a composite and integrated action program of both administrative and legislative actions that will provide the information and procedures to assure the high quality and confidence in the state valuations that are required.

We appreciate having had this opportunity to serve your Committee. We wish to express our appreciation for the valuable cooperation and assistance furnished to us by the officials and staff of the Property Tax Division and by the many local assessors with whom we worked.

Sincerely,

A handwritten signature in dark ink, appearing to read "Thomas L. Jacobs", written in a cursive style.

Thomas L. Jacobs  
President

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## I. - INTRODUCTION -- SCOPE OF SURVEY

The review and analysis of the procedures and results of the state valuation, which is reported on herein, was undertaken to follow through on the assignment of the Select Committee on State Property Tax Valuation. The specific charges to the Committee and the scope of the study are:

- (1) Review the procedures by which state valuations are established.
- (2) Review the validity of the state valuation with respect to a representative sampling of communities.
- (3) Review the need for a sales certificate to be filed with all real estate transactions.
- (4) Report to the Governor and the Legislature with recommended administrative action and legislation to implement its findings.

## II. - SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Maine state valuation is a process and record of the equalized full value of all taxable property in each of the 497 municipalities and in the unorganized territory of the State. It is, and has been throughout the State's history, an integral element in the structure of public finance, dealing with property tax administration at the state level of government and with the distribution of financial assistance for various purposes to the local governments in the State. The importance of the role of the state valuation is obvious, and further supported by the fact that the state valuation and the local assessments from which it stems are the base for property taxes which are the largest single source of revenue for state and local governments.

The overriding goal of the process and results of the state valuation is to produce property values for the respective municipalities and the unorganized territory that reasonably approximate full value and are established with the highest possible degree of uniformity and equity. Along with consideration of the direct procedures and results of the state valuation, it is important to understand that the state valuation is considerably dependent on and impacted by the appraisal/assessment practices and the availability of information in the municipalities. Thus, the means to improve the procedures and results of the state valuation, with which this study are concerned, must and will provide equally important benefits to the municipalities.

An over-all conclusion is that the Property Tax Division is doing a significantly effective job in establishing the state valuation, within the constraints of existing procedures, information, structure for local assessments, and resources that are available. However, the existing constraints are meaningful and need to be reduced.

From the procedural standpoint, the concept and practice of imputing full value by adjusting gross local assessed values on the basis of indicators of full value for different types of property is sound and proper. However, many of the basic elements of an effective system need to be strengthened or provided for in the first place. These include such matters as (a) making appraisals to fill in gaps of property sales information for assessment - sales ratio purposes, (b) establishing a standard system for classifying property in the respective municipalities to better identify the characteristics of the base from which the state valuation is established, (c) providing more effective means for determining full values with uniformity for industrial and utility property, (d) assuring firm enforcement of local assessment standards and extending necessary assistance to local assessors.

With respect to the matters of validity of state valuations our basic findings are (a) that the state valuations are conservative in representing full value of taxable property, and (b) that the degree of conservatism or uniformity has on the one hand a reasonable consistency among a significant proportion of the municipalities, and on the other hand has a wide range among all municipalities. In analyzing 39 representative communities, we find that



over half cluster within a reasonable range of uniformity, while the others deviate to a significant degree. There is no clear-cut pattern for a high or low relationship -- other than that the greatest deviations are small municipalities where the least information is available for valuation purposes and where the assessment ratios are low and assessment practices and data are weak.

On the basis of these findings and concurrent analyses, we have developed a series of specific recommendations which are detailed in the report. They comprise a composite and integrated action program to strengthen the procedures and results of the state valuation -- and be equally beneficial to the municipalities. Their approval and implementation assumes a commitment to excellence by the State legislative and administrative officials that is commensurate with the importance of effective property tax administration. The recommendations include:

- (1) Refine the assessment - sales ratio procedures and statistical analysis techniques, and establish legislative requirement for the Property Tax Division to make and publish assessment - sales ratio studies for all municipalities.
- (2) Reaffirm the absolute necessity for a certified statement of the consideration in all real estate transactions, to be provided in an appropriate form.
- (3) Establish a property classification system to be applied by all municipalities for all parcels on their assessment role, which will identify property according

to its use (residential, commercial, industrial, agricultural, seasonal, etc.) and by its condition as improved or vacant.

- (4) Make a sample of full value appraisals to supplement sales information in municipalities where there are insufficient sales for ratio study purposes.
- (5) Assign responsibility to the Property Tax Division (a) to appraise all industrial property with a value over \$1,000,000 and all operating utility property subject to property taxation, and (b) to certify such appraisals to the municipalities for local assessment purposes. Provide for the financing of such appraisal service from State funds.
- (6) Up-date valuation standards used by the Property Tax Division to provide more current levels of value for assessments in the unorganized territory.
- (7) Support firm enforcement of the legislative assessment standards -- and the provision of technical assistance to local assessors.
- (8) Provide required manpower and other resources for the state valuation function and assessment assistance service.

- (9) Provide for funding the costs for implementing the recommendations, estimated at about \$200,000 for the first year for the industrial and utility appraisal service -- and separate from other costs for extending services for which the Property Tax Division is now responsible.

### III. - DESCRIPTION OF THE STATE VALUATION

The Maine state valuation is a process and record of the equalized full value of all taxable property in each of the 497 organized municipalities and in the unorganized territory of the State. The state valuation consists of a gross or composite valuation of property in each municipality and the individual valuation of all parcels of property in the unorganized territory. The 1975 state valuation included a total of \$9,390,561,606 for taxable property in the State, which was determined as \$9,070,090,000 or 96.6% in all municipalities and \$320,471,606 or 3.4% in the unorganized territory. The preliminary 1977 state valuation for municipalities totals \$11,703,250,000.

The state valuation is, and has been throughout the State's history, an integral element in the structure of public finance dealing with property tax administration at the State level of government and with the distribution of financial assistance for various purposes to the local governments in the State. Currently, the state valuation is used for two broad categories of purpose: (1) as an element and equalization factor in the formulas for determining the distribution of financial assistance to local governments for such purposes as health and welfare, roads maintenance, state-municipal revenue sharing, and (2) more visibly, as the base for determining the amount of uniform property tax for schools to be raised by each municipality. Additionally, the state valuation on each parcel of property in the unorganized territory is used as the assessed value for determining the amount of property tax to be billed to each such parcel of property.

Thus, the importance of the role of the state valuation as an element in the structure of public finance is obvious -- dealing with both revenue and expenditure policy, practice and standards. Also, the direct impact and influence of property taxation as the largest single source of revenue for state and local governments in Maine further emphasizes the importance and critical nature of the state valuation. For example, as shown in the table on the next page, state property taxes including the uniform property tax, which are based directly on the state valuation, represented 19% of total state and local tax revenues in the fiscal year 1975-76. Additionally, municipal property taxes, which are directly related under the subject of property tax administration and the assessed values for which serve as a foundation for the state valuation, represented 14% of total state and local tax revenues that year. Thus, approximately one-third of total state and local tax revenues in 1975-1976 was raised from property taxation with which the state valuation is directly related.

The overriding goal of the process and results of the state valuation, like property appraisals/assessments under any circumstances for tax purposes, is to produce property values for the respective municipalities and the unorganized territory with the highest possible degree of uniformity and equity. This obviously is to assure that the tax load that is based on such valuations is distributed in the most equitable manner. The current objective is for the state valuations to represent full or 100% value, which is most readily measurable and understandable and practical for equalization purposes.

The procedures and information used in determining the state valuations, in themselves, clearly indicate what the state valuation is and what it is not, and identify certain basic factors and considerations that impact on the analysis and understanding of the state valuation. The state valuation, except in the unorganized territory, for each municipality is

1975-1976 STATE - LOCAL TAX STRUCTURE\*

<u>TAX</u>	<u>REVENUE</u>	<u>APPROXIMATE % OF TOTAL TAX REVENUE</u>
PROPERTY:		
STATE PROPERTY ..... (INCLUDES UNIFORM PROPERTY TAX - \$120 MILLION	\$132,139,539.15	19 %
MUNICIPAL PROPERTY ..... ..	100,935,944.00**	14 %
MUNICIPAL AUTO EXCISE TAX ...	22,507,798.00**	3 %
MUNICIPAL INVENTORY AND LIVESTOCK ..... ..	12,595,344.00**	2 %
SPRUCE BUDWORM TAX ..... ..	2,837,259.00	0.2%
TOTAL PROPERTY TAXES ..... ..	\$271,015,884.15	39 %
STATE SALES ..... ..	151,335,808.52	22 %
PERSONAL INCOME .. ..... ..	52,266,430.03	7.3%
UNEMPLOYMENT COMPENSATION TAX	35,537,656.00	5 %
CORPORATE INCOME . ..... ..	32,642,106.92	5 %
HIGHWAY FUND ..... ..	52,283,138.51	7.3%
ALCOHOLIC BEVERAGE OPERATIONS	22,933,750.01	3 %
MOTOR VEHICLES LIC. & REG. ...	22,128,483.95	3
CIGARETTE ..... ..	23,935,432.43	3.4%
OTHERS*** ..... ..	37,369,389.26	5
TOTAL	\$701,448,079.78	100 %

\*ALL FIGURES FROM STATE BUREAU OF TAXATION - PROPERTY TAX  
DIVISION AND STATE CONTROLLER'S FISCAL 1975-76 COMPUTER  
DATA.

\*\*1975 FIGURES USED AS 1976 DATA UNAVAILABLE.

\*\*\*OTHER TAXES INCLUDE:

INHERITANCE ..... ..	\$ 7,361,635.75
MILK TAXES ..... ..	509,528.98
CORPORATION REGULATORY TAXES	516,532.19
PUBLIC UTILITY TAXES ..... ..	10,282,860.86
INSURANCE COMPANY TAXES .. ..	8,369,557.92
BANK TAXES ..... ..	211,470.16
GAME LICENSE TAXES ..... ..	91,893.01
HARNESS RACING PARI-MUTUEL ...	1,300,890.84
SERVICE ORIENTED LICENSES ...	2,053,916.07
FISHING & GAME LICENSES .. ...	4,649,401.75
MISCELLANEOUS LICENSE FEES ...	2,021,701.73
TOTAL	\$37,369,389.26

determined through a process of adjusting or up-grading the local assessed value for all property (or classes of property such as general residential, commercial, industrial, tree growth to add up to the total) established by the municipal assessor(s) to a level that represents full value for such property in gross or composite amounts. This process involves the application of factors or information that indicates the full value of types of property and/or the relationships of local assessed values to full values of property in the municipalities. It is not, and does not involve, the appraisal of individual properties.

For the state valuation of municipalities, the major indicators of full value and of the relationships of local assessed values to full values that are used are:

- (a) The value of properties that have sold in a valid arms-length transaction, and the relationship of the local assessed value to the sales price for such properties, known as the assessment-sales ratio computed through an assessment-sales ratio study for each municipality -- and used to determine the full value essentially of residential improved or vacant property since that is the type of property for which there is a meaningful volume of sales.
- (b) The certified assessment ratio for each municipality which is specified by the respective municipal assessors to reflect their judgement of the level of assessments or relationship of local assessed value to full values that is practiced in their municipalities -- and used to determine the full value essentially of commercial and industrial property, for which there is little or no sales information and for

which other indicators of value generally are not available.

- (c) A process of trending assessment ratios or local assessed values in municipalities where there is limited property sales activity, on the basis of rates of change in neighboring municipalities where there is greater sales activity, or of economic factors that reflect inflationary influence, to maintain comparability and currentness of the measures of full value in municipalities within a region with similar characteristics.
- (d) The results of recent revaluations or appraisal of particular properties as these occur and become available.
- (e) State valuation standards that are adopted for specific types of property such as tree growth land and electric utility transmission facilities.

These indicators of value and of the relationships of local assessed values to full value, and other considerations, are applied in practice for the respective municipalities in a number of variations or combinations, which are most largely determined by and dependent on the availability of information in the respective municipalities. Further description and analysis of these procedures and valuation factors is contained in the following section of this report dealing with the specific findings and recommendations of the study. The table on the following page (using the state valuation analysis form) summarizes pictorially and conceptually the



# STATE VALUATION ANALYSIS

## MUNICIPAL VALUATION

### BUILDINGS

		<u>RATIO</u>	<u>SOURCE</u>	<u>STATE VALUATION</u>
ASSESSED VALUE RESIDENTIAL	<u>8,250,000</u>	<u>32 %</u>	<u>RATIO STUDY</u>	<u>25,781,250</u>
ASSESSED VALUE SEASONAL	<u>--</u>	<u>-</u>	<u>--</u>	<u>--</u>
ASSESSED VALUE COMM. & IND.	<u>3,000,000</u>	<u>60 %</u>	<u>CERT. RATIO</u>	<u>5,000,000</u>
OTHER	<u>--</u>	<u>-</u>	<u>--</u>	<u>--</u>
TOTAL BUILDING ASSESSMENT	<u>11,250,000</u>	<u>-</u>	<u>--</u>	<u>30,781,250</u>

### LAND

ASSESSED VALUE PUBLIC UTILITIES	<u>250,000</u>	<u>-</u>	<u>STATE STDS.</u>	<u>400,000</u>
ASSESSED VALUE TREE GROWTH	<u>1,000,000</u>	<u>-</u>	<u>STATE STDS.</u>	<u>1,650,000</u>
ASSESSED VALUE HOUSE LOTS	<u>2,500,000</u>	<u>32 %</u>	<u>RATIO STUDY</u>	<u>7,812,500</u>
ASSESSED VALUE SEASONAL LOTS	<u>--</u>	<u>-</u>	<u>--</u>	<u>--</u>
ASSESSED VALUE COMM. & IND. LOTS	<u>750,000</u>	<u>60 %</u>	<u>CERT. RATIO</u>	<u>1,250,000</u>
ASSESSED VALUE EXCESS ACREAGE	<u>--</u>	<u>-</u>	<u>--</u>	<u>--</u>
NUMBER OF EXCESS ACRES	<u>-</u>	<u>-</u>	<u>--</u>	<u>11,112,500</u>
OTHER	<u>-</u>	<u>-</u>	<u>--</u>	<u>11,112,500</u>
TOTAL LAND ASSESSMENT	<u>4,500,000</u>			

### PERSONAL

TOTAL PERSONAL ASSESSMENT	<u>1,500,000</u>	<u>60 %</u>	<u>CERT. RATIO</u>	<u>2,500,000</u>
TOTALS	<u>17,250,000</u>	<u>38.9%</u>		<u>44,393,750</u>
OVERALL RATIO	<u>39</u>		ROUNDED TO	<u>44,400,000</u>

process for determining the state valuation for a hypothetical municipality.

As implied in the preceding description of the state valuation for municipalities, the state valuation and the effectiveness of procedures for its determination are considerably dependent on and impacted by the appraisal/assessment practices and the availability of information in the respective municipalities. The state valuation and its procedures is not a stand-alone thing, but rather, clearly and necessarily relies on the local assessments as the in-going base for determining the state valuation. The quality and confidence in the local appraisal/assessment practices and the availability of information in the respective municipalities directly affects the quality and confidence in the state valuation. Also, from another perspective, the means to improve the procedures and results of the state valuation, with which this study and report are concerned, will provide direct opportunities and assistance for improvements in the appraisal/assessment practices and results within the municipalities. It is most important to recognize this inter-dependence of the state valuation and the local assessments, in terms both of the review of procedures and results of the state valuation and of the benefits from implementing the recommendations to improve the state valuation.

The state valuation for property in the unorganized territory, representing about 3.5% of the total state valuation, is a distinctly different thing and process from the state valuation for municipalities. In the unorganized territory, the state valuation consists of the appraisal of all individual parcels of property, which is done by the staff of the State Property Tax Division using the state appraisal manual and standards. These appraisals are intended to be determined as full value assessments in the

first place, and there accordingly is no process of adjustment to full value as in the case of the municipalities. In essence, the state valuation or appraisals in the unorganized territory is a counterpart of the local appraisals/assessments in the municipalities, but administered by the Property Tax Division as the assessor for the unorganized territory.

A summary of the state valuation for municipalities, together with the specific valuations for each municipality, for the 1975 valuation and the preliminary 1977 valuation, is presented in Attachment A. This data indicates that the preliminary 1977 valuation is in total 28.9% greater than the 1975 valuation, which reflects both the inflationary impact on property values and the on-going activities of the Property Tax Division to attain full value valuations for all municipalities. The percentage increases in valuations for the respective municipalities range from none to over 50%, which are caused by a variety of factors in the different municipalities. These variances in percentage change among the municipalities is most natural and proper, and among other things reflects progress toward uniformity in the state valuations for municipalities. The municipal summary, with totals of valuations for each county, is presented in the following table.

MUNICIPAL SUMMARY  
PRELIMINARY  
1977 STATE VALUATION

<u>COUNTY</u>	<u>1975 VALUATION</u>	<u>1977 VALUATION</u>	<u>% INCREASE</u>
ANDROSCOGGIN	\$ 642,650,000	\$ 811,000,000	26.2
AROOSTOOK	496,170,000	629,450,000	26.9
CUMBERLAND	2,142,450,000	2,669,400,000	24.6
FRANKLIN	243,757,719	328,950,000	34.9
HANCOCK	513,800,000	673,700,000	31.1
KENNEBEC	733,110,000	961,950,000	31.2
KNOX	344,550,000	451,550,000	31.1
LINCOLN	568,300,000	706,750,000	24.4
OXFORD	371,990,000	495,450,000	33.2
PENOBSCOT	912,210,000	1,163,650,000	27.6
PISCATAQUIS	93,235,683	127,700,000	37.0
SAGadahoc	219,850,000	290,950,000	32.3
SOMERSET	269,550,000	356,750,000	32.4
WALDO	197,480,000	259,850,000	31.6
WASHINGTON	233,070,000	304,450,000	30.6
YORK	1,098,500,000	1,471,700,000	34.0
TOTAL	\$ 9,080,673,402	\$11,703,250,000	28.9%

#### IV. FINDINGS AND RECOMMENDATIONS

In conducting this review of the procedures and results of the state valuation, we have carried out four distinct phases of work, including:

- (1) A familiarization and detailed analysis and evaluation of the procedures used, the data available and its utilization, the field work performed, the results of the valuation processes, the review and appeals procedure and practice, final application of the state valuation, and related matters....at the State level of the Property Tax Division.
- (2) A detailed analysis and evaluation of the validity of state valuations, by checking actual applications and methods, by testing alternative approaches and factors, and by comparisons of result...in the field and the Bureau for a selected representative sample of municipalities.
- (3) A specific analysis and evaluation of the state valuation procedures and results in the unorganized territory.
- (4) A comprehensive analysis of the result of the preceding phases of the study, and the development of definitive findings, conclusions and recommendations that are required to assure a high level of confidence in the state valuations.

The first phase of study work gave us a good knowledge and understanding of the over-all system for determining the state valuations for all municipalities and the unorganized territory, and identified a series of initial findings and conclusions about the strengths and weaknesses of the state valuation system. The second phase provided a testing of these initial findings, together with additional information and findings from the municipalities and the development of our judgement about the validity or reasonableness and uniformity of the state valuations for municipalities, in the specific cases of 39 representative municipalities. The third phase of study work addressed the particular circumstances of the state valuation in the unorganized territory, an evaluation of results, and the identification of needs and means for improvement. The fourth phase provided for integrating the findings and conclusions and developing the specific recommendations and course of action that are presented in this report.

The specific representative municipalities that were included in the second phase of the study are:

Androscoggin County

Durham  
Poland  
Turner

Lincoln County

Booth Bay Harbor  
Wiscasset

Aroostook County

Haynesville  
Madawaska  
Monticello

Oxford County

Fryeburg  
Rumford

Cumberland County

Gorham  
Harpwell  
Naples  
Portland

Penobscot County

Bangor  
Corinth  
Howland

Franklin County

Carrahasett Valley  
Strong

Sagadahoc County

Bath  
Georgetown

Hancock County

Bar Harbor  
Brooksville

Kennebec County

Albion  
Augusta  
Oakland

Knox County

Appleton  
Vinalhaven

Somerset County

Madison  
Moscow

Waldo County

Belfast  
Jackson

Washington County

Machiasport  
Wesley

York County

Lebanon  
Waterboro  
Wells

In approaching this study, we have the opportunity to benefit by the experiences and practices and study work in other states and local government jurisdictions, along with the direct analysis of the experiences and practices in Maine. The determination of state valuations, or equalized property valuations as they are frequently identified elsewhere, is carried out in various forms in other states, and has been a subject of considerable study. These experiences enable us to generate a list of ingredients that are known to be required for most effective results, against which the conditions and practices in Maine can be compared. These ingredients or requirements include the following:

(1) For any assessing jurisdiction there should be valid information and an adequate volume of property sales (valid arms-length transactions) to furnish current measures of market values -- a sample of about 4% of the number of parcels of property is considered statistically adequate to develop a valid ratio of assessemnts to sales.

(2) In the absence of adequate sales information, either for an entire assessing jurisdiction due to an inactive real

estate market or for particular classes of property which do not turn over frequently such as industrial and utility property, there should be alternate methods to independently estimate market values, such as sample appraisals or systems to identify comparable properties in different locations.

(3) There should be a standard system of classifying all property in all assessing jurisdictions in order to properly reflect the actual different levels of assessment practiced by the different local assessors for the respective classes of property, and to furnish the base for one which accurately impute the full value for each class and then the composite value for the jurisdiction -- such classification should reflect use such as residential, commercial, industrial, agricultural and condition such as improved or vacant.

(4) There should be the most effective structure, systems and standards for the local appraisal/assessment of property in the first place, since these assessments are the underlying base for the state valuations -- such structure, systems and standards should include provision for technical assistance to be furnished by the state agency in the form of training, assessor certification, appraisal manuals, assessment-sales ratio studies, information on the state valuation procedures and results -- and standards should exist in the form of legislative policy as to acceptable levels of assessments and quality of assessments at the local levels of government, together with authorization and means for their enforcement.

(5) The state agency responsible for determining the state valuations, or equalized property valuations, should have sufficient resources to enable it to carry out an effective program of developing equalized valuations, providing the technical assistance that is required, and



administering and enforcing the system of assesement standards.

(6) Considering all elements, the system for determining the state valuations should provide for the most totally objective process that is possible.

Over-all Findings and Conclusions -- The findings and conclusions of this study address specifically the purposes of the study to review the adequacy of procedures by which state valuations are established, to review the validity of state valuations, and to recommend administrative action and legislation to implement the findings. Obviously, the adequacy or strengths and weaknesses of present procedures directly affect the validity of results. The findings deal with both the adequacy of procedures and the resultant valuations. The recommendations for improvements are made in terms of strengthening the procedures by which the state valuations are established, which in turn will have the tangible benefit of improving the validity of the state valuations in the final analysis.

We wish in this section of the report to present our over-all findings and conclusions about the procedures and results of the state valuation. These over-all findings and conclusions have culminated from the details of analysis, and integrating of findings and experiences, within the Property Tax Division and with the 39 representative municipalities throughout the State. They present a framework or perspective for consideration of the specific findings and recommendations that are presented in the following section of the report.

(1) A basic conclusion is that the Property Tax Division is doing significantly effective job in establishing the

state valuations, within the constraints of existing procedures, information, structure for local assessments, and resources that are available. However, the existing constraints are meaningful. Their identification furnishes the basis for the action program of improvements. Most importantly, the Property Tax Division is knowledgeable about the existing constraints and system weaknesses and the needs for improvements, and has initiated or is planning for a number of improvement actions. Among these improvement actions are the legislative requirement for certification of the sales price on all real estate transactions, the requirement for annual (rather than bi-ennial) assessment-sales ratio studies, the establishment of legislative policy on the level and quality of local assessments, the plans to conduct appraisals to fill in gaps in information on property sales.

(2) From the procedural stand-point, the concept and practice of imputing full value by adjusting gross local assessed value for different types of property is sound and proper. However, the basic elements and related information of a sound system for establishing the state valuation are available and applied in only a few cases, and generally the State is seriously hampered by a lack of information and the facility for a consistent approach to establish the state valuation with the maximum objectivity and uniformity. Our principal findings with respect to the existing procedures for establishing the state valuation include the following:

- (a) The emphasis on and procedure for the assessment-sales ratio studies has provided a good guide in many of the municipalities for adjusting assessed values of residential property to full value, although there has been a

significant time lag between the study date and the date for the state valuation. The methods for selection and validation of property sales for use in the ratio studies are sound and have produced a sufficient size of sample for reliable analysis in about half of the 497 municipalities which have approximately 60% of the parcels of property in the State. The State has followed a procedure of comparing the sales price for individual properties with the local assessed value as of a date following the sale -- this should be reversed to compare the sales price with the assessed value preceding the date of the sale. The statistical techniques to measure the level and quality of local assessments generally conform with desired practice, although certain refinements will improve their reliability for year-to-year comparisons, use by the local jurisdictions, and enforcement of the assessment standards.

New procedures for collecting property sales information and making the assessment-sales ratio studies are being installed for initial use for the 1978 state valuation. These involve the use of sales price information that is certified for each transaction under

the new real estate transfer law and the requirement to have annual rather than bi-ennial ratio studies. These new procedures, together with the related data processing applications, are a distinct improvement which we strongly endorse. It is our opinion that the results of the assessment-sales ratio studies can be used with a high degree of confidence for up-grading residential improved and vacant property assessments to full value.

- (b) A major and critical problem and weakness in the present system and procedures for establishing the state valuation is that there is no system or record for classifying the individual parcels of property in each municipality according to their use (residential, commercial, etc.) and condition (improved or vacant). Such a system of property classification is a basic need to assure valid and uniform state valuations.

The municipal valuation returns report the total assessed valuations land, buildings and personal property separately, but do not indicate the use or the amounts that are improved or vacant. The State staff, along with the local assessors, in determining the state valuation, estimate

a breakdown of the total buildings valuation among residential, seasonal, commercial and industrial, and other use, and a breakdown of the total land valuation among public utilities, tree growth, house lots, seasonal lots, commercial and industrial, and excess acreage. However, this estimate does not identify the significant factor of whether land is improved or vacant. The assessemnt-sales ratio studies identify the sales as including land and buildings or land only and the use as residential, seasonal, commercial, etc. but there is no directly comparable classification of the assesement roll against which the ratio study results can be applied. Such comparable classification is needed for all property uses, and particularly to distinguish between improved and vacant parcels, since it is known and shown by the ratio studies that vacant land is generally and typically assessed at a lower level or ratio than land and buildings of improved parcels.

It is evident that a significant effort and established procedure, with meaningful progress, has been made to utilize a classification of properties for imputing the full values of such classes in establishing the total or composite state valuation for the

respective municipalities. However these procedures, and the process of estimation, can be greatly improved, and should be replaced with a required standard system of classification of all parcels of property by the assessor(s) in each municipality. Such classification should identify the use of the property, such as residential, seasonal, commercial, industrial, agricultural and the condition of the property as improved or vacant. Such a classification system will be equally useful for the local assessment procedures and for the state valuation process.

- (c) In municipalities where there is an inactive real estate market and insufficient sales for a reliable ratio study, or where the current ratio study shows a higher rate of decline than typical, the Property Tax Division has followed the general practice of trending the previous ratio by a factor which reflects the rate of change in neighboring municipalities where there is more information on sales. This procedure tends to keep the respective valuations (for general residential property) current with respect to the impact of inflation on property value, but does not directly identify the needs

as to the degree of adjustment to attain a full value level in the municipality concerned.

The most direct substitute to fill gaps in the availability of sales information is to conduct a series of appraisals which will augment the sales sample and produce a combination assessment to sales and appraisals ratio. To date, the Property Tax Division has not had sufficient manpower to undertake such appraisals, but is planning on this procedure with the change in field staff work load from the computerized ratio study system.

- (d) The determination of estimated full value for commercial, industrial and utility property in the respective municipalities is a distinct problem to the Property Tax Division, and in the confidence in this element of the total state valuation for the respective municipalities. The point of the problem is two-fold: (1) that there are no standard methods or required expertise among most of the municipalities for appraising these types of property in the first place, and (2) that there are no consistent indicators of full value such as sales, other than municipal revaluations when and where they are made.

The prevailing practice of the Property Tax Division for determining the state valuation for this property element in the respective municipalities is to apply the certified ratio as the factor for up-grading the estimated total assessed value for these types of property to the estimate of full value. The certified ratios represent the judgements of the individual assessor(s) as to the level of assessments in their municipalities, and there are no consistent or uniform bases on which these judgements are made. Thus, the problems of validity and consistency of appraisals/assessments in the first place and lack of full value indicators for these types of property are compounded by the use of adjustment factors that do not have a uniform basis.

- (e) Along with the above principal findings on procedures for the state valuation, it is also significant to report that the documentation of the state valuation process, information and determinations for the respective municipalities is excellent. In each case, the sales ratio studies and results are reported, considerable detailed information on the economic characteristics and valuation guidelines and assessment practices is



recorded, and the specific bases for determination of the state valuation for different categories of property are recorded.

(3) With respect to the matter of validity of the state valuations, we are basically concerned with the reasonableness of the valuations and the degree of uniformity that exists in the valuations among all of the municipalities. It is our basic finding and conclusion (a) that the state valuations are conservative in representing full value of taxable property in the respective municipalities, and (b) that the degree of conservatism or uniformity has on the one hand a reasonable consistency among a significant proportion of the municipalities and on the other hand has a wide range among all municipalities which indicates need for improvement. We also conclude that there have been improvements in the degree of uniformity of the state valuations among the municipalities, as they are established to more nearly represent full value of properties within the respective municipalities.

These conclusions on the validity of the state valuations have been reached through our analysis of the procedures and results of the state valuations for 39 representative municipalities throughout the state. Additionally, the analysis of these 39 municipalities support the conclusions reached and outlined previously about the procedures for establishing the state valuations and needed improvements. These analyses have also indicated other observations and conclusions that are set forth later in this chapter of the report.

The tables on the following pages set forth certain basic information about the state valuations and the assessment ratios and bases for the state valuations in the 39 municipalities.

# ANALYSIS OF STATE VALUATIONS

FOR

## 39 REPRESENTATIVE MUNICIPALITIES

(ALL FIGURES IN THOUSANDS)

	STATE VALUATIONS			LOCAL ASSESSMENT	
	1975	PREL. 1977	1975 TO 1977 % INCREMENT	1975 AMOUNT	RATIO TO 1977 STATE VAL.
LINCOLN COUNTY					
BOOTHBAY HARBOR	55150	68850	25%	\$ 26456	38%
WISCASSETT	262500	301550	15	94678	31
OXFORD COUNTY					
FRYEBURY	22100	30550	38	7007	23
RUMFORD	104900	129250	23	102707	79
PENOBSCOT COUNTY					
BANGOR	216000	262450	22	193813	74
CORINTH	6400	9050	41	2004	22
HOWLAND	4600	6150	34	2052	33
PISCATAQUIS COUNTY					
DOVER-FOXCROFT	22500	30200	34	36281	120
GREENVILLE	13400	18650	39	12449	67
SAGADAHOC COUNTY					
BATH	86000	110200	28	64669	59
GEORGETOWN	10800	15600	44	5175	33
SOMERSET COUNTY					
MADISON	26200	36250	38	4173	12
MOSCOW	12100	14950	24	9089	61
WALDO COUNTY					
BELFAST	44000	52750	20	48953	93
JACKSON	1300	1800	38	575	32
WASHINGTON COUNTY					
MACHIASPORT	5700	7400	30	2247	30
WESLEY	640	850	33	193	23
YORK COUNTY					
LEBANON	13900	21500	55	10086	47
WATERBORO	23500	32250	37	16317	51
WELLS	106000	149550	41	18429	12

ANALYSIS OF STATE VALUATIONS  
FOR  
39 REPRESENTATIVE MUNICIPALITIES  
 (ALL FIGURES IN THOUSANDS)

	<u>STATE VALUATIONS</u>			<u>LOCAL ASSESSMENT</u>	
	<u>1975</u>	<u>PREL. 1977</u>	<u>1975 TO 1977 % INCREMENT</u>	<u>1975 AMOUNT</u>	<u>RATIO TO 1977 STATE VAL.</u>
ANDROSCOGGIN COUNTY					
DURHAM	\$ 9950	\$ 14250	43%	\$ 10663	75%
POLAND	23400	31700	35	12643	40
TURNER	21050	30650	46	12676	41
AROOSTOOK COUNTY					
HAYNESVILLE	920	1250	36	310	25
MADAWASKA	78600	101800	30	90966	89
MONTICELLO	5600	7400	32	3815	52
CUMBERLAND COUNTY					
GORHAM	58200	78100	34	46073	59
HARPSWELL	52700	72600	38	14050	19
NAPLES	31200	43000	38	22646	53
PORTLAND	640000	727000	14	685589	94
FRANKLIN COUNTY					
CARRABASSETT VALLEY	13848	18750	35	14481	77
STRONG	5400	7850	45	1654	21
HANCOCK COUNTY					
BAR HARBOR	50500	63750	26	61268	96
BROOKEVILLE	14400	19050	32	4354	23
KENNEBEC COUNTY					
ALBION	7650	10400	36	6649	64
AUGUSTA	153600	198300	29	134165	68
OAKLAND	28000	38250	37	15267	40
KNOX COUNTY					
APPLETON	5150	7150	39	1955	27
VINALHAVEN	17300	22950	33	2702	12

# ANALYSIS OF RATIOS AND BASES FOR STATE VALUATIONS

## FOR 39 REPRESENTATIVE MUNICIPALITIES

	FOR 1977 STATE VALUATION			BASIS FOR STATE VALUATION
	ACTUAL AVERAGE SALES RATIO	RATIO USED FOR GEN. PROPERTY	MUNICIPAL CERTIFIED RATIO	
ANDROSCOGGIN COUNTY				
DURHAM	64	72	75	ADJUSTED '75 RATIO X 80% FOR REAL ESTATE CERT. RATIO FOR PERSONAL PROPERTY
POLAND	31	38	50	ADJUSTED '75 RATIO X 75% FOR GENERAL PROP. CERT. RATIO FOR COM'L, IND. & P.P.
TURNER	29	38	50	ADJUSTED '75 RATIO X 80% FOR GENERAL PROP. CERT. RATIO FOR COM'L, IND. & P.P.
AROOSTOOK COUNTY				
HAYNESVILLE	9.7	20	29	'75 RATIO X 80% FOR GENERAL PROPERTY CERT. RATIO FOR P.P.
MADAWASKA	79	84	100	DEVELOPED PARCEL RATIO FOR GENERAL PROP. CERT. RATIO FOR COM'L & P.P. MILL AT CERT. RATIO + 10%
MONTICELLO	56	50	68	ADJUSTED '77 RATIO FOR ABOVE AVERAGE ASSESSMENT RATING FOR GENERAL PROP. CERT. RATIO FOR COM'L, IND. & P.P.
CUMBERLAND COUNTY				
GORHAM	55	57	50	DEVELOPED PARCEL RATIO FOR GENERAL PROP. '74 CERT. RATIO OF 70% FOR OTHER PROP.
HARPSWELL	16.5	19	25	DEVELOPED PARCEL RATIO FOR GENERAL PROP. CERT. RATIO FOR OTHER PROPERTY
NAPLES	60	52	65	'75 RATIO X 75% FOR GENERAL PROPERTY CERT. RATIO FOR P.P.
PORTLAND	89	89	90	AVERAGE RATIO FOR GENERAL PROPERTY '74 CERT. RATIO OF 100% FOR COM'L, IND. & P.P.

<u>FOR 1977 STATE VALUATION</u>				<u>BASIS FOR STATE VALUATION</u>
	<u>ACTUAL AVERAGE SALES RATIO</u>	<u>RATIO USED FOR GEN. PROPERTY</u>	<u>MUNICIPAL CERTIFIED RATIO</u>	
FRANKLIN COUNTY				
CARRABASSETT VALLEY	68	74	100	DEVELOPED PARCEL RATIO FOR GENERAL PROPERTY, EXCEPT CONDOMINIUMS CERT. RATIO FOR SKI AREA AND P.P.
STRONG	17	21	42	DEVELOPED PARCEL RATIO FOR ALL REAL EST.
HANCOCK COUNTY				
BAR HARBOR	85	95	100	ADJUSTED AV. RATIO TO REFLECT RECENT REVALUATION FOR GENERAL PROP. CERT. RATIO FOR COM'L & IND.
BROOKSVILLE	16.2	22.5	40	DEVELOPED PARCEL RATIO FOR ALL REAL EST. CERT. RATIO FOR P.P. & UTILITY
KENNEBEC COUNTY				
ALBION	53	60	60	CERT. RATIO FOR ALL REAL ESTATE & P.P.- CLOSE TO 59% DEVELOPED PARCEL RATIO
AUGUSTA	58	60	71	DEVELOPED PARCEL RATIO FOR GENERAL PROP. '75 RATIO OF 77% FOR COM'L & IND. CERT. RATIO FOR PERSONAL PROP.
OAKLAND	33	38	50	'75 RATIO X 80% FOR GENERAL PROP. CERT. RATIO FOR OTHER PROPERTY
KNOX COUNTY				
APPLETON	18	27	40	ADJUSTED '75 RATIO X 80% FOR ALL REAL EST. CERT. RATIO FOR PERSONAL PROPERTY
VINALHAVEN	13	11.3	25	'75 RATIO X 75% FOR ALL REAL EST. CERT. RATIO FOR PERSONAL PROPERTY
LINCOLN COUNTY				
BOOTH BAY HARBOR	34	34	50	AVERAGE RATIO FOR GENERAL PROPERTY CERT. RATIO FOR COM'L, IND. & P.P.
WISCASSET	23	19	40	DEVELOPED PARCEL RATIO FOR GENERAL PROP. UTILITY PLANTS AT DEPRECIATED COST

<u>FOR 1977 STATE VALUATION</u>		
<u>ACTUAL</u> <u>AVERAGE</u> <u>SALES</u> <u>RATIO</u>	<u>RATIO</u> <u>USED</u> <u>FOR GEN.</u> <u>PROPERTY</u>	<u>MUNICIPAL</u> <u>CERTIFIED</u> <u>RATIO</u>

BASIS FOR STATE VALUATION

OXFORD COUNTY				
FRYEBURG	19	22	40	'75 RATIO X 75% FOR GENERAL PROPERTY CERT. RATIO FOR OTHER PROPERTY
RUMFORD	73	78	88	DEVELOPED PARCEL RATIO FOR GENERAL PROP. MILL + POWER PLANT AT CERT. RATIO + 10%
PENOBSCOT COUNTY				
BANGOR	71	71	78	AVERAGE RATIO FOR GENERAL PROPERTY CERT. RATIO FOR COM'L, IND. & P.P.
CORINTH	14	22	25	BLEND '75 & '77 DEVELOPED PARCEL RATIOS FOR GENERAL P.P. CERT. RATIO FOR COM'L, IND. & P.P.
HOWLAND	22	34	33	BLEND '75 RATIO & '77 DEVELOPED PARCEL RATIO FOR GEN. PROP. CERT. RATIO FOR COM'L, IND. & P.P.
PISCATAGUIS COUNTY				
DOVER-FOXCROFT	104	120	110	AVERAGE RATIO + 15% FOR ALL PROPERTY, DUE TO AGGRESSIVE ASSESSING PRACTICE
GREENVILLE	57	61	100	DEVELOPED PARCEL RATIO FOR GENERAL PROP. CERT. RATIO FOR COM'L, IND. & P.P.
SAGadahoc COUNTY				
BATH	54	54	52	AVERAGE RATIO FOR GENERAL PROPERTY COM'L, AND INDUSTRIAL AT 75% RATIO TO REFLECT LOWER RATE OF APPRECIATION
GEORGETOWN	27	33	40	'75 RATIO X 75% FOR GENERAL PROPERTY CERT. RATIO FOR OTHER PROPERTY
SOMERSET COUNTY				
MADISON	8	9.5	16	'75 RATIO X 75% FOR GENERAL PROPERTY MILL AT 1975 STATE VALUATION CERT. RATIO FOR P.P.
MOSCOW	34	37	38	DEVELOPED PARCEL RATIO FOR GENERAL PROP. DAM AT 1975 STATE VALUATION + 20%

<u>FOR 1977 STATE VALUATION</u>		
<u>ACTUAL</u> <u>AVERAGE</u> <u>SALES</u> <u>RATIO</u>	<u>RATIO</u> <u>USED</u> <u>FOR GEN.</u> <u>PROPERTY</u>	<u>MUNICIPAL</u> <u>CERTIFIED</u> <u>RATIO</u>

BASIS FOR STATE VALUATION

WALDO COUNTY				
BELFAST	89	90	100	AVERAGE RATIO (ROUNDED) FOR GENERAL PROP. CERT. RATIO FOR COM'L, IND. & P.P.
JACKSON	9.3	--	44	1975 STATE VALUATION + 40% FOR ALL PROPERTY, TO REFLECT AVERAGE INCREASES IN SURROUNDING TOWNS-- FEW SALES
WASHINGTON COUNTY				
MACHIASPORT	24.6	26	80	DEVELOPED PARCEL RATIO FOR GENERAL PROP. CERT. RATIO FOR COM'L, IND. & P.P.
WESLEY	2.3	--	33	1975 STATE VALUATION + 33% FOR ALL PROPERTY TO REFLECT AVERAGE INCREASES IN SURROUNDING TOWNS-- FEW SALES
YORK COUNTY				
LEBANON	44	49	90	AVERAGE OF '75 AND '77 RATIOS FOR ALL REAL ESTATE CERT. RATIO FOR PERSONAL PROPERTY
WATERBORO	39	43	50	ADJUSTED DEVELOPED PARCEL RATIO FOR GENERAL PROPERTY CERT. RATIO FOR COM'L, IND. & P.P.
WELLS	12	12	20	AVERAGE RATIO FOR GENERAL PROPERTY CERT. RATIO FOR PERSONAL PROPERTY

The conclusion that the state valuations are conservative in representing full value of taxable property in the respective municipalities is indicated by a number of factors. In a couple of cases, namely Haynesville and Corinth, where revaluations have recently been completed, the state valuations are substantially lower than the total of the revaluation. The practice of using the assessment-sales ratio for developed parcels for imputing the full value of all general property including vacant lots and land is conservative since vacant lots and land generally assessed at a lower ratio than developed parcels. The use of an inflation adjustment factor alone in cases where the computed ratio decline from the preceding ratio study is large is also a conservative approach. The fact of conservatism in the state valuations is typical and supportable in the process of property valuation for the tax purposes, and favors the goal of maintaining degree of stability in the property tax base.

The prevailing goal of the state valuation is to assure uniformity in valuations at full value measurements for the respective municipalities. The measurement of uniformity and comparison of state valuations among municipalities may involve considerable judgement and the weighing of different factors that are considered in establishing the state valuations in the first place. However, one objective indicator, which addresses a basis for measuring uniformity and identifies a range of results, is the relationship of the ratio used to impute the full value of general property (basically residential) to the average ratio from the assessment-sales ratio studies for the respective municipalities. Which this indicator is not absolutely precise or encompassing of all valuation factors, it provides a meaningful reflection of the condition of uniformity. We have computed the relationship of the ratio used to the average ratio from



the ratio studies for the 39 representative municipalities, which shows the following groupings and distribution of results.

<u>Per Cent Relationship Of Ratio Used To Average Ratio from Study</u>	<u>Number of Municipalities</u>
Under 100%	3
100 - 110	12
110 - 120	10
120 - 130	3
130 - 140	5
140 - 150	1
Over 150	5
	<u>39</u>

The higher the relationship in the above table implies the most conservative valuation and prospectively furthest below full value. The conclusions from this analysis are two-fold: (1) that there is a meaningful clustering of over half of the sample municipalities in the 100-120 range, which indicates a high degree of consistency among this significant portion of the sample, and (2) that there is in fact a wide range of value relationships among all municipalities, with over one-third of the sample above the 120 relationship and the actual range from 87 to 206. Regardless of the preciseness of this indicator, the need for improvement is indicated and is known and acknowledged.

We have analyzed the characteristics of the municipalities in the respective groupings, and find that there is no clear-cut pattern for a high or low relationship. This fact in itself is significant, that there is no particular or distinctive treatment directed to one or another groups or types of municipalities. One significant result of this analysis is that the municipalities in the highest brackets are small municipalities where the least information is available for valuation purposes and where the assessment

ratios are comparatively low (although there are small municipalities with low ratios in the lower brackets also). This situation supports the need to improve the information base for valuation purposes as indicated in the conclusions regard procedures for the state valuation.

(4) During the course of our survey work with the Property Tax Division and the assessors in the 39 representative municipalities, we have identified some other findings and conclusions that have a bearing on the procedures and results of the state valuations for municipalities. The include the following:

(a) In the perception of the local assessors with whom we worked, there are generally no complaints about the state valuations and the job the Property Tax Division is doing. This is further supported by the fact that there have been very few, only 36 last year, appeals of state valuations to the Municipal Valuation appeals Board. More importantly, however, is the situation that there is a considerable lack of knowledge or understanding about the state valuation and the procedures and bases for its establishment among many of the local assessors -- particularly the part-time selectman-assessors. And concurrently, there is a considerable expressed desire by these assessors to receive more and better information about the state valuation and the assessment-sales ratio studies, and to have additional assistance on their local assessment problem from the field men of the Property Tax Division. For example, the analyses and charting of the assessment-sales ratio studies which we prepared for our work with the sample municipalities, as shown in Attachment B, was very well received, and added materially to the understanding of the state valuation and its procedures.

(b) The above situation relates directly to the problems in establishing the state valuations, and the related matters of quality of local appraisal/assessment practices, that are caused by the existence of the large number of small assessing jurisdictions in the State. This problem has been previously addressed by the Legislature, and provisions for larger assessment districts modified to provide that they are optional. The needs for better levels and quality of assessments at the local levels of government persist, and are now recognized in the statutory assessment standards. These standards are having a positive effect, as evidenced by the expressed concern of many of the local assessors as to how they will attain the standards, and their expressed desire for assistance in the process. A firm enforcement of the assessment standards should be totally supported, along with required assistance to the municipalities. This will greatly aid the process of establishing the state valuations and will directly benefit the local assessment practices and results.

(c) The matter of resources available to the Property Tax Division for the establishment of the state valuations is a serious concern. This deals with numbers of manpower and their qualifications to perform the present and projected workload, and with the classification and compensation of these positions. With new requirements for field appraisals and assistance to municipalities and enforcement of assessment standards, the staff needs to be enlarged. The Division proposal for three appraisal specialists on machinery and equipment, commercial and industrial property, and for five property tax advisors to accomplish the annual rather than bi-ennial state valuations and to furnish assistance required by the new assessment standards, is not unreasonable. Also, the question of classification and compensation for these positions should be reviewed in order to assure that the Division can obtain and retain qualified

staff. The titles of property tax advisors and analysts are misleading and misnomers. These positions require capabilities of property appraisers and should be so identified and compensated at a level comparable to other property appraisal personnel in the State government. These considerations are fundamental to the effective performance of the state valuation function and of the State requirements to assist the municipalities in their appraisal/assessment activities. They are in keeping with the importance and focus of service in assuring, improving and maintaining a sound base of state and local property valuations for the significant source of government revenue from property taxation.

(5) With respect to the state valuation of property in the unorganized territory, we have made an assessment-sales ratio study of recent sales in this area to determine the level of assessments on these properties and the degree of consistency with the full value goal for all state valuations. The sales prices were taken from the sales certificates for real estate transactions during October, 1975 to September, 1976, and assessed values for these properties are as of April, 1976. This ratio study is shown in the table on the following pages.

The current assessment-sales study reports an average assessment ratio of 71% on properties in the unorganized territory. The study data is significantly weighted with residential, including seasonal properites, which reflects the less active market in timber land. The basic conclusion from this evaluation is that the present assessments in the unorganized territory are considerably below full market value. The Property Tax Division should up-date the valuation standards in its appraisal system, and should institute procedures to keep these standards at current levels -- which it is in the process of doing.

1500W - Supervisor, Organized Terr.

R- Residential L- Land Only

F- Farm O- Old

M- Manufacture N- New

S- Seasonal X- Other

I- Industrial 1 1/2 R - 1 1/2 story, 2 family Residential

FIELD RATIO STUDY

County \_\_\_\_\_

Municipality Unorganized TwpDate Dec. 10, 1976 By P. Cook

Weighted Average			Median Ratio			Rating of Assessment Quality				
Item	Bldg. Age	Class	Yr. of Sale	Bk & Pg in Reg.	Map & Lot	Est Sale Pr Trans Stamp	Assd Val (Yr. _____)	Ratios		
								Sales	Avg	Deviation
1.		L	76		2-112.2	\$ 9,000	\$ 3,550	39 %	71 %	32
2.		S	76		4-6	7,500	2,900	40		31
3.		R	76		1-21	12,500	7,100	41		30
4.		S	76		1-24.5	14,000	5,370	42		29
5.		L	75		4-20	6,000	2,600	43		28
6.		S	75		8-2	34,700	15,410	44		27
7.		R	76		4-43, 12	30,000	13,220	44		27
8.		R	76		4-5.1	7,000	3,070	44		27
9.		C	76		8-34	50,000	23,110	46		25
10.		S	76		3-17.4	26,000	12,000	46		25
11.		R	76		4-10.2	8,500	4,000	47		24
12.		L	76		1-21.32	3,800	1,600	47		24
13.		L	75		2-96	5,300	2,500	48		23
14.		R	75		1-12.4	750	360	48		23
15.		S	76		1-3.1	45,000	21,540	48		23
16.		S	76		7-50	4,500	2,140	48		23
17.		L	76		1-17.2	10,000	4,930	49		22
18.		L	75		1-21.37	3,500	1,770	51		20
19.		L	76		2-20.2	9,500	4,900	52		19
20.		S	76		2-153	16,000	8,280	52		19
21.		S	76		8-44	4,000	2,110	53		18
22.		S	75		10-2	4,000	2,100	53		18
23.		L	75		1-113.22	3,300	1,760	53		18
24.		R	76		2-38	14,900	7,950	53		18
25.		S	76		2-19	5,000	2,720	54		17
26.		S	75		1-135	5,500	3,000	55	1 1/4	16
27.		S	76		2-66	15,000	8,600	57	7 1/4	14
28.		S	76		3-37	10,000	5,740	57		14
29.		R	76		7-1	2,200	1,260	57		14
30.		R	76		2-6.3	12,000	6,790	57		14
31.		S	76		8-19	7,500	4,340	58		13
32.		L	76		1-31.3	13,000	7,600	58		13
33.		S	76		8-19	7,500	4,340	58		13
34.		R	75		1-16.5	11,500	6,790	59		12
35.		S	75		2-2.1	32,367	19,200	59		12
36.		S	75		2-2.2	31,900	18,750	59		12
37.		S	75		2-1	50,000	29,970	60		11
38.		L	75		1-1	90,000	54,144	60		11
39.		S	75		2-3.2	31,800	19,230	60		11
40.		S	76		3-69	17,000	10,250	60		11
41.		S	76		2-2.7	41,800	25,920	62		9
42.		R	76		1-17.1	55,000	33,700	62		9
43.		R	76		2-1.4	1,500	950	63		8
44.		S	75		3-17.19	4,000	2,510	63		8
45.		S	75		2-6	20,000	140,110	64		7

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Supervisor, Organized Town  
Residential L- Land Only

County \_\_\_\_\_

Farm O- Old  
A- Acreable N- New

FIELD RATIO STUDY

Municipality Unorganized Town

S- Seasonal X- Other

Date Dec, 10, 76 By L. Cook

I- Industrial 1 1/2 R - 1 1/2 story, 2 family Residential

Weighted Average			Median Ratio			Rating of Assessment Quality				
Item	Bldg. Age	Class	Yr. of Sale	Bk & Pg in Reg.	Map & Lot	Est Sale Pr Trans Stamp	Assd Val (Yr _____)	Sales	Avg	Dev. at
446		R	8-76		1-16 & 17	\$ 15,000	\$ 9,610	64	71 %	7
447		R	5-76		2-155	10,000	6,525	65		6
448		U	1-76		6-15	1,000	650	65		6
449		S	5-76		5-2	10,000	6,740	67		4
450		F	3-76		2-112.3	15,000	10,110	67		4
451		S	7-76		2-17	2,200	1,500	68		3
452		S	5-76		2-22	4,000	2,780	70		1
453		R	6-76		5-8	8,500	6,070	71		0
454		R	1-76		4-3	800	570	71		0
455		R	3-76		1-9	1,100	780	71		0
456		S	11-75		2-1	22,500	16,260	72		1
457		R	12-75		2-38	20,000	14,440	72		1
458		S	12-75		2-33	6,000	4,350	73		2
459		S	1-76		2-1	27,000	19,620	73		2
460		S	12-75		2-2	4,800	3,580	75		4
461		R	6-76		6-15	6,500	4,960	76		5
462		R	5-76		1-12.2	17,000	12,890	76		5
463		A	3-76		1-7A	1,100	860	78		7
464		S	3-76		2-11	5,000	3,900	78		7
465		F	1-76		1-1.2	10,000	7,800	78		7
466		R	3-76		3-20	200	160	80		9
467		S	6-76		1-12	4,290	3,500	82		11
468		R	6-76		1-38	4,000	3,260	82		11
469		S	8-76		6-38	800	680	85		14
470		S	5-76		2-8	8,000	6,870	86		15
471		S	12-75		1-1	5,750	5,000	87		16
472		S	6-76		6-45	5,000	4,430	89		18
473		R	12-75			8,000	7,150	89		18
474		A	4-76		1-46.1	5,000	4,500	90		19
475		R	6-76		1-15.5	2,500	2,240	90		19
476		S	12-75		1-1.2	50,000	44,920	90		19
477		S	2-76		2-30	4,000	3,680	92		21
478		S	4-76		4-156 & 157	4,665	4,390	94		23
479		S	5-76		2-152	4,000	3,740	94		23
480		A	5-76		1-25	12,500	11,770	94		23
481		S	9-75		1-18.2	2,000	1,970	99		26
482		S	12-75		1-18.2	2,000	1,970	99		26
483		R	3-76		2-34.1	800	800	100		29
484		S	12-75		2-2.2	30,000	30,220	100		29
485		Land	6-76		1-113	850	880	103		32
486		Land A	2-76		2-30	2,000	2,100	105		34

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- Supervisor, Organized Terr.

Residential L- Land Only

Farm O- Old

Residential N- New

Seasonal X- Other

Industrial 1 1/2 R - 1 1/2 story, 2 family Residential

FIELD RATIO STUDY

County \_\_\_\_\_

Municipality Unorganized Town

Date Dec. 10. 76 By P. Cook

Weighted Average 69.5			Median Ratio 70			Rating of Assessment Quality 30				
Item	Age	Class	Yr. of Sale	Bk & Pg in Reg.	Map & Lot	Est Sale Price Trans Stamp	Assd Val (Yr. _____)	Ratios		
								Sales	Ave	Deviation
87		S	75		2-27.7	\$ 3,800	\$ 4,000	105%	71 %	34
88		S	75		2-27.8	3,800	4,000	105		34
89		S	76		2-27.6	3,800	4,000	105		34
90		L	75		1A	51,500	56,311	109		38
91		R	76		4-43.13	880	970	110		39
92		S	75		1-49.4	2,500	2,740	110		39
93		L	75		1-14	14,375	16,133	112		41
94		S	75		4-31	5,000	5,830	117		46
95		F	75		2-13	5,000	5,830	120		49
96		S	75		1-130	3,000	3,620	121		50
97		L	76		1-35	5,000	6,160	123		52
98		S	76		2-20	5,000	6,380	128		57
99		F	75		2-92	17,500	23,430	134		63
100		S	75		1-27	5,225	7,360	141		70
101		S	75		2-27	5,225	7,360	141		70
102		S	76		2-22	14,000	20,580	147		76
103		R	76		1-15.3	5,000	7,510	150		79
104		R	76		1-33	9,000	14,200	158		87
						1,502,777	1,036,043			
Total of Mid Group 3,699										
divided by 52										
						Equals 71	Average ratio			
Total of Deviation Column 2,291										
divided by 104										
						Equals 22	Average Deviation			
Average Deviation 22										
divided by Ave Ratio 71						Equals 30	Rating of Assessment Quality			

The Property Tax Division has not followed a practice of making assessment-sales ratio studies on a regular basis for the unorganized territory, but it has undertaken such studies for selected communities as it undertakes appraisals or re-appraisals in these communities. Samples of these studies indicate assessment levels at these times in the range of 80% to 95%.

#### Specific Findings and Recommendations

On the basis of the study work and the over-all findings and conclusions as set forth previously, we have developed a series of specific findings and recommendations. These comprise a composite and integrated action program of both administrative and legislative actions that will provide the information and procedures to assure the high quality and confidence in the state valuations that are required. They will be equally beneficial to the state valuation system and results and to the local appraisal/assessment practices, and will strengthen the basis of inter-dependence among the two levels of the property valuation function. Their approval and implementation assumes a commitment to excellence by the State legislative and administrative officials that is commensurate with the importance of effective administration of property taxation as the largest single source of revenue for the state and local governments. We have also developed an estimate of cost that may be expected in implementing the recommendations, in order to address this issue and to indicate the level of commitment that is required.

These specific findings and recommendations are set forth hereafter, dealing with:

- Assessment-sales ratios
- Sales certificate on real estate transactions
- Property classification system



- Appraisals to supplement property sales information
- Appraisal of industrial and utility property
- State valuation in the unorganized territory
- Enforcement of assessment standards -- State information and assistance to local assessors.
- Resources for the state valuation function and assessment assistance service.
- Estimated cost to implement recommendations.

Assessment-Sales Ratios -- The assessment-sales ratio studies and results are a basic ingredient in the procedures for establishing the state valuations, with specific reference to residential property which comprises a major portion of the property tax base. Additionally, they are the basis and source of information for determining the attainment of assessment standards by the respective municipalities, as measured by assessment ratios (minimums of 50% by 1977, 60% by 1978, and 70% by 1979 and thereafter). The need for excellence and confidence in the assessment-sales ratios is obvious.

The present procedures and results of the assessment-sales ratio studies are the fundamentally sound and good. Adequate numbers of sales are included wherever available, good screening and selection procedures are practiced, and meaningful statistical measures are produced. One problem is the significant time lag that has existed between the dates of the sales and assessments used in the ratio studies and the date of the state valuation. With the bi-ennial ratio studies and state valuations, this time lag is indicated for example that for the 1977 state valuations, the ratio studies utilize sales that occurred during 1973 and 1974 which are compared with assessments as of April, 1975. This will be improved with the new system for annual ratio studies. It is also

consequential to note that the new system of reporting sales prices on sales certificates of real estate transactions is very effective in reporting more sales than had been identified under previous methods. Specifically, we reviewed the current sales information for the 39 sample municipalities and find that in almost all cases more sales were reported for the one year than had been gathered for a two year period previously.

Many improvements in the assessment-sales ratio process are now being implemented; our additional findings and recommendations are refinements.

Under present practice, the assessments following the date of a sale are used in the ratio studies, and under the new procedures, the sales for half of the year will be compared with assessments following the date of the sale, and the sales for half of the year will be compared with assessments preceeding the date of the sale. To most effectively reflect the assessment-sales ratios and quality of assessments, the sales should be compared with the assessments just preceding the date of the sale.

Recommendation No. 1 -- The Property Tax Division should establish procedures and instructions to require that sales prices are compared with the assessments of the properties just preceding the date of the sale.

The statutes now require that assessors will conduct annual sales ratio studies, but there is no statutory requirement for the Property Tax Division to conduct such studies.

The Property Tax Division will conduct such studies and in many cases for the municipalities, has established procedures for this work, and needs to perform this function independently -- and such may have been taken for granted. The system will be strengthened by a statutory requirement for the Property Tax Division to conduct annual assessment-sales ratio studies. Additionally, there will be considerable benefit from the requirement and practice for the Property Tax Division to publish the results of such studies, and to incorporate such data and analyses in an information system and exchange with the municipalities. Such practices also are part of a sound methodology for enforcement of the assessment standards.

Recommendation No. 2 -- Statutory requirement should be established for the Property Tax Division to conduct annual assessment-sales ratio studies applicable to each municipality or assessing jurisdiction, and to publish the results of such studies.

Recommendation No. 3 -- The Property Tax Division should incorporate the results and analyses of the sales ratio studies in an information system and exchange with the respective municipalities. (This might include information and diagrams similar to those shown for the sample communities in Attachment B, together with explanation of the meaning of the study results).

The present statistics produced from the ratio studies indicate measures of the levels of assessment (the average sales ratio) and of the quality of assessments (the quality rating). In determining the quality rating, the present procedure includes all sales in the valid sample, including

those with very high or low ratios which are not necessarily typical or situations that may occur only in the one year. The more prevalent and desirable practice is to use more standard statistical techniques which eliminate the impact of such extremes and give a meaningful year-to-year record. For the over-all level of assessments, the median ratio is recommended; for the quality of assessments, the co-efficient of dispersion (one-half the interquartile range divided by the median) is recommended. By using the coefficient of dispersion, the acceptable quality rating will be a lower number than now specified as the assessment standard, because of eliminating the extreme cases in the statistical process. An acceptable quality of assessments should not exceed a co-efficient of dispersion of 18, and present standards should be adjusted accordingly.

Recommendation No. 4 -- The Property Tax Division in reporting the results of sales ratio studies should use the median ratio to reflect the over-all level of assessments, and the coefficient of dispersion (one-half the interquartile range divided by the median) to reflect the quality of assessments.

Recommendation No. 5 -- The statutory assessment standards for rating of assessments should be adjusted to provide for a maximum quality rating of 18 by 1979 and thereafter, measured by the coefficient of dispersion.

Sales Certificate on Real Estate Transactions -- The new law on real estate transfers and the reporting of sales price on the sales certificate is a vital improvement in providing necessary information and strengthening the procedures for establishing the state valuations. Its benefits are already very evident with the first year of experience. The question of confidentiality of information that exists about this matter refers to the form of reporting, and in no way constraints the requirement and benefit of having the information reported. Alternate forms of reporting may be considered, but in any event the requirement for the providing of such information should be continued.

Recommendation No. 6 -- The Select Committee on State Property Tax Valuation should reaffirm the absolute necessity for a certified statement of the consideration in all real estate transfer transactions, to be provided in an appropriate form.

Property Classification System -- A standard system of classification of property according to its use (such as residential, commercial, industrial, agricultural, etc.) and its condition as improved or vacant, is a basic requirement for the most effective and valid procedures and results of the state valuation -- and is equally beneficial for the appraisal/assessment practices at the local levels of government. At the present time, there is no such system of classification in practice or required. In most municipalities there is no accurate information to indicate the number of parcels of property and their assessed value that are, for example, residential improved, residential vacant, commercial, industrial, farm improved or vacant, seasonal, or in another category that is significant in a particular municipality. Since fractional assessments (less than full value) are practiced in most municipalities, and the

levels of assessment are in practice and in fact different for the different classes of property, it is imperative that accurate information on the assessed value of the respective classes of property be available, from which to impute the full value for the state valuation. Under present procedures, estimates of assessed value for different use classes are made in the state valuation procedure, but no estimate is made to distinguish between improved and vacant property. The property sales information for the sales ratio studies is classified the way property sells as improved or vacant, but there is no counterpart classification of the assessment rolls to directly apply this information in determining the state valuation. The present municipal valuation reports show a breakdown of assessed values between land and buildings in gross totals, but this is not meaningful for the state valuation procedures. Thus, as indicated previously, the state valuation must and does depend considerably on estimates of assessed values for different classes of property, and is not able to distinguish between improved or vacant property.

The solution to this important problem is to establish a standard system of property classification that will be required in each municipality. Such classifications should be applied to all parcels of property on the assessment roll of all municipalities. The key characteristic of the classification system is that it should identify the use of the property and the condition as improved or vacant. The system should include standard classifications that are applicable in all municipalities, such as residential, commercial, industrial, agricultural. It should also have the flexibility and authority to identify sub-sets of these classes or special classes that are meaningful in particular municipalities such as seasonal property, tree

growth property, etc. The application of the classification system should be the responsibility of the assessor(s) in each municipality, in accordance with standard directions and instructions from the Property Tax Division. Additionally, the municipal valuation reports should be redesigned to furnish information on the assessed values for the respective classes of property. Because of its state-wide application and extension to the municipalities, the requirement for the classification systems should be included as one of the legislative assessment standards.

Recommendation No. 7 -- Legislation should be adopted to require that all municipalities classify all parcels of property on their assessment roll according to the standard property classification system and any additional special categories that are significant in their municipality, and that the municipalities report to the State Bureau of Taxation the totals of assessed values for such classes on their municipal valuation returns. The standard classification system shall include the following classes:

- Residential improved
- Residential vacant
- Commercial improved
- Commercial vacant
- Industrial improved
- Industrial vacant
- Agricultural improved
- Agricultural vacant

Appraisals to Supplement Property Sales Information -- In many of the areas and municipalities throughout the state, the real estate market is not sufficiently active to produce a sufficient number of sales that are required for a sound analysis of market levels and the indication of full values that is required for the state valuation. This is a matter of fact that needs to be dealt with in the approach and procedures for the state valuation. The principal approach now used is to trend the values in municipalities so concerned in accordance with the experience in neighboring communities where more sales have occurred. This is good and tends to keep pace with inflationary impacts, but does not address directly the matter of the amount of adjustment required to reach full value in the community concerned.

The most direct, simple and effective approach to resolving this problem, which is important, is to provide for the appraisal of a sample of properties at full value standards to fill in the gap of an adequate number of sales. The Property Tax Division is planning on such approach, and we recommend that it be carried out. There are other approaches essentially designed to develop a net-work of comparable properties and their full valuations, but they have many questions and are not as directly and immediately applicable. Additionally, the Property Tax Division has good experience and capability in individual property appraising that can and should be utilized for this program.

Recommendation No. 8 -- The Property Tax Division should make full value appraisals of a sample of properties, where required in municipalities where there are an inadequate number of sales to produce a valid assessment-sales analysis. The goal, as in cases where there are sufficient sales, should be a sample of about 4% of the number



of parcels in the municipality, which in the municipalities concerned would be a combination of sales and appraisals.

In attempting to estimate the work load that may be involved, we have analyzed the number of sales that were available and used in the ratio studies for the 1977 state valuation. This analysis indicates that 238 municipalities with 323,800 parcels of property had sufficient sales of 4% of their number of parcels or at least ten sales. The remaining 259 municipalities with 247,800 parcels had fewer sales than this goal, but by observation averaged something in the neighborhood of 2.5% - 3% of their parcels. Knowing that more sales are being reported under the new certificate system, and certain shortcomings in the gathering of sales data previously, it is reasonable to estimate that about 2,500 - 3,000 appraisals would need to be made to fill in the gap in the desired number of sales -- which is not a particularly large workload.

Appraisal of Industrial and Utility Property -- The appraisal of industrial and utility property is one of the most difficult and least certain tasks of the local assessors, and is probably the least certain element in the process of determining the state valuations. This work requires particular expertise that in general is not available in the respective municipalities -- and certainly the appraisals/assessments of such properties are not made by the local assessors with any particular degree of uniformity or consistency of valuation standards. At the same time, the industrial and utility properties represent a significant portion of the total property tax base, and require particular attention to assure uniform treatment in the state valuations -- and desirably among the municipalities.

With respect to the state valuation, the problem is quite clear. There is no assurance of valid or uniform appraisals/assessments of these properties in the respective municipalities in the first place. There are no generalized indicators of full value for these properties, such as sales, which could be used to adjust the assessed values regardless of local uniformity. And to compound these conditions, the adjustment factor now generally used, of the municipal certified ratio, is a factor which represents the best judgement of the assessor(s) in each of the municipalities, for which there is not and really can not be any consistent basis. Thus, the state valuation of industrial and utility property must be considered to contribute to any lacks of uniformity that exist.

The most direct and effective solution to this problem, which is being done increasingly by other states, is to provide for the state tax agency to be assigned the responsibility for appraising the industrial and utility property throughout the state -- for state valuation or equalization purposes and for local appraisal/assessment purposes. We recommend that this policy and practice be adopted in Maine. The plan we recommend provides for the Property Tax Division to appraise at full value all industrial property with a value of over \$1,000,000 and all operating utility properties that are subject to property taxation. The Property Tax Division would certify the appraised full value of each parcel of industrial or utility property to the municipality where it is located. The municipality would apply its assessment ratio to establish the assessed value for the property, would list the property in its assessment roll, and would apply its tax rate and prepare its tax bill, just like any other property. Since the function of appraising industrial and utility property would be a State responsibility, for purposes of the state valuation and a mandatory service to the municipalities, we

further recommend that the cost for this service be paid for with State funds under its standard budgetary and fiscal procedures.

Recommendation No. 9 -- Legislation should be adopted to assign responsibility to the Property Tax Division to appraise at full value all industrial property in the state with a value over \$1,000,000 and all operating utility property subject to taxation, to require the Property Tax Division to certify such individual full value appraisals to the municipalities where the properties are located, to require the municipalities to use these appraisals as the basis for their assessed value of the individual properties, and to provide for the financing of this appraisal service from State funds.

The undertaking and carrying out of this responsibility by the Property Tax Division is a major assignment. It is estimated that there are over 400 industrial and utility properties in this category in the state. The approach to the service will require specialized technical assistance at the outset to develop methodologies, appraisal manuals and standards, and to train State staff. It should be planned that the first appraisals -- then subject to on-going maintenance -- will require a few years. The job, however, is manageable and doable, and will make a major required improvement in the state valuations and in the local assessments.

State Valuation in the Unorganized Territory -- The state valuation in the unorganized territory needs to be treated in the same light as the state valuations for municipality -- with respect to matters of level of value, uniformity, classification of property, etc. The recent assessment-sales ratio study for the unorganized territory indicates that properties (excluding tree growth) are assessed on average at about 71% of full value. This evidences the need, already known and planned for, for the Property Tax Division to up-date its appraisal standards to more nearly approximate current values -- and to institute systems to maintain values at a more current level.

Recommendation No. 10 -- The Property Tax Division, in assessing property in the unorganized territory, should up-date its appraisal standards to more nearly approximate current values, and should institute systems to maintain the values at a more current level.

Enforcement of Assessment Standards -- State Information and Assistance to Local Assessors -- One of the most basic requirements for assuring a high degree of validity and uniformity in the state valuations is to assure a high quality of appraisals/assessments in the municipalities in the first place. This inter-dependence of the property valuation systems at the state and local government levels is a basic condition to be recognized in reviewing the state valuation. The Legislature has recognized the need for sound and valid appraisals/assessments at the local levels of government by establishing meaningful assessment standards. The attainment of these standards will not only aid the municipalities, but also will contribute materially to improving the validity and uniformity of the state valuations. Attainment of these

standards will require a considerable effort by the municipalities -- and of equal importance a commitment and practice of firm enforcement.

Along with the enforcement of the assessment standards is the need for the Property Tax Division to furnish effective information and assistance to the municipalities. Much is being done, with the assessor training and certification program being most prominent. Further direct assistance is required in attaining and enforcing the assessment standards, which can take many forms such manuals, special appraisal instructions, regular information bulletins, direct assistance on particular appraisal problems, and possible revaluations of small towns by the state staff.

Recommendation No. 11 -- Complete support should be extended by the State and local government Officials to a commitment and practice of firm enforcement of the legislation assessment standards. Concurrently, the Property Tax Division should design and carry out a more extensive program of technical assistance to the local assessors.

Resources for the State Valuation Function and Assessment Assistance Service -- One of the main ingredients in assuring valid and uniform state valuations, and the related procedures and services, is to have adequate resources, primarily of qualified manpower, to undertake and carry out the work that is needed to be done. It is our conclusion that the Property Tax Division has been hampered by a condition of inadequate resources, and in some respects a related lack of recognition of the fundamental needs for effective property tax administration.

With the planned extension of technical assistance to the municipalities both in certain specialized appraisal areas and in relation to administration and enforcement of the assessment standards, the Division has indicated and supported a need for ten additional positions. Such adjustment is not unreasonable.

Another problem deals with the matter of classification and compensation for the appraiser staff of the Property Tax Division. These positions, now identified as property tax analysts or advisors, really require the full capability of property appraisers, and a level of compensation that will attract and keep personnel with such capability. The classification and compensation of these positions should be reviewed, with the objective that they are identified and compensated on a basis comparable with other appraisal personnel in the State and local governments.

Recommendation No. 12 -- The Property Tax Division should be provided with sufficient manpower and other resources to effectively carry out its on-going and expanded duties -- at a level to fulfill its increased workload and to accomplish the necessary improvements in property tax administration.

Recommendation No. 13 -- A review should be made of the classification and compensation of appraiser type positions in the Property Tax Division, to assure that they are identified and compensated on a basis that will attract and keep personnel with the required capabilities.

Estimated Cost to Implement Recommendations -- The recommendations set forth above represent a comprehensive and integrated program to improve the procedures and results of the state valuation. They have the concurrent benefit of contributing materially to improving the appraisal/assessment practices and results in the respective municipalities. Their implementation will involve a level of cost which we believe is more than commensurate with the benefits.

The principal costs that are related to implementation of the recommendations are those dealing with (a) providing for State appraisal of industrial and utility property, (b) conducting appraisals to fill in the gaps in availability of sales information for ratio studies, which is now being planned, (c) following through on enforcement of the assessment standards and providing additional technical assistance to municipalities, which also is a present responsibility being planned for, and (d) administering new features of the state valuation and local assessing systems, such as the property classification system.

The principal new cost not now being planned for, except proposals for technical assistance, is providing for State appraisal of industrial and utility property. The initial costs will spread over several years, and the total cannot be reasonably estimated now because the specific form and character of the program is not defined. However, a first year cost can be reasonably estimated, at a level of about \$200,000, which will provide for the professional and technical assistance the Property Tax Division will need and for the State staff to be trained and to participate in the work.

Recommendation No. 14 -- Specific provision should be made for funding the costs that are required for implementing the recommendations in this report, estimated at about \$200,000 for the first year, and above other costs for extending services for which the Property Tax Division is now responsible.





ATTACHMENT B

ASSESSMENT - SALES RATIO ANALYSES

FOR

SELECTED MUNICIPALITIES

1975 RATIO STUDY FOR 1977 STATE VALUATION

STATE OF MAINE

MUNICIPALITY: *Belfast*

COUNTY: *Waldo*

POPULATION (1973 estimate): *6,207*

NO. OF PARCELS: *2,682*

NO. OF SALES: *129*

LOCAL ASSESSMENT: *\$48,953,000*

STATE VALUATION: *\$52,750,000*

WEIGHTED AVERAGE RATIO:  $\frac{\$2,385,850}{\$2,673,000} = 89\%$

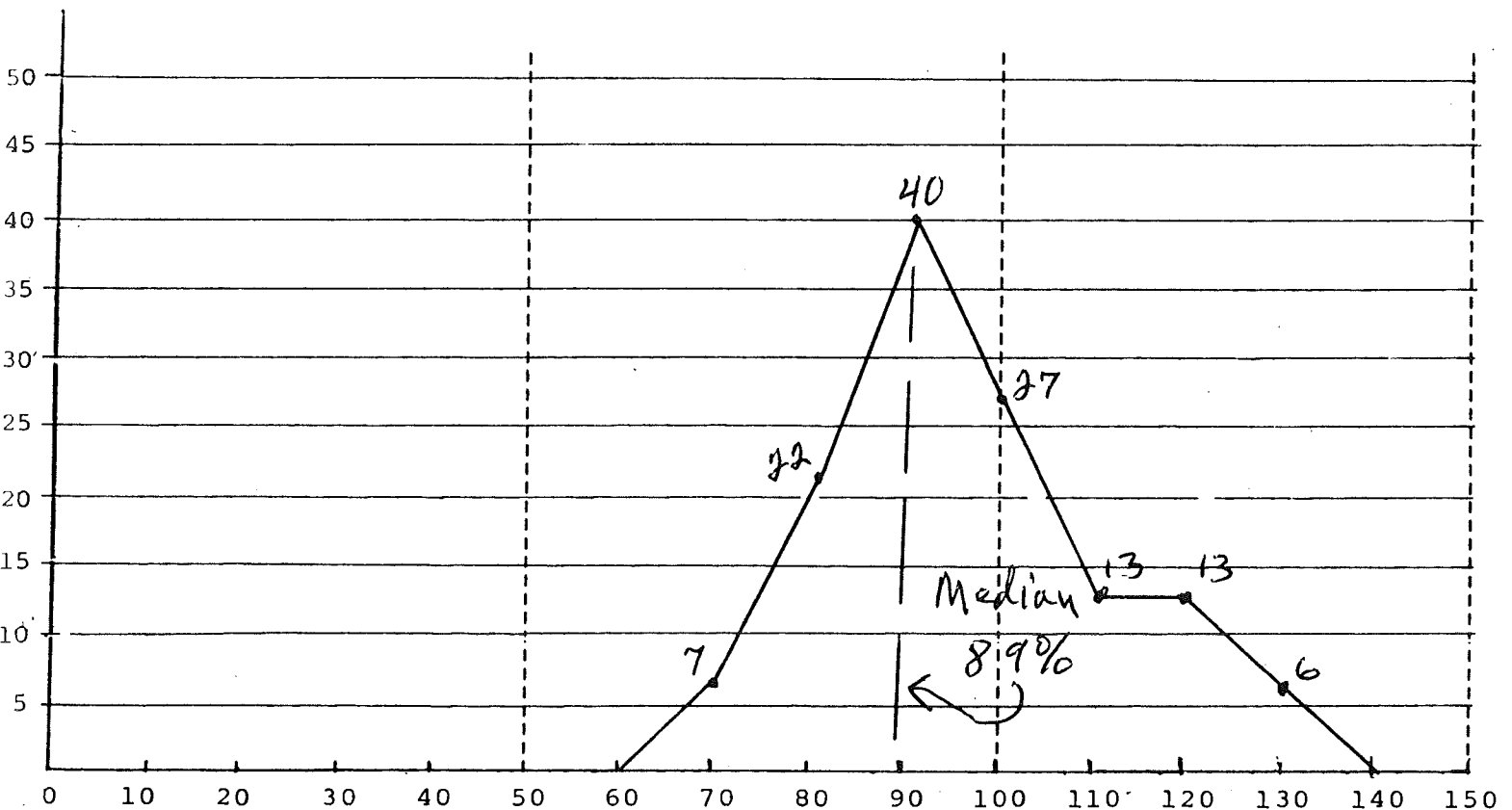
MEDIAN: *89%*

AVERAGE RATIO:  $\frac{5,818}{65} = 89.5\%$

AVERAGE DEVIATION:  $\frac{1,592}{129} = 12.3\%$

ASSESSMENT QUALITY RATING:  $\frac{12.3}{89.5} = 13.7$

No. of  
Sales



ASSESSMENT - SALES RATIO PERCENTAGE

1975 RATIO STUDY FOR 1977 STATE VALUATION

STATE OF MAINE

MUNICIPALITY: *Brooksville*

COUNTY: *Hancock*

POPULATION (1973 estimate): *742*

NO. OF PARCELS: *800*

NO. OF SALES: *22*

LOCAL ASSESSMENT: *\$4,354,000*

STATE VALUATION: *\$19,050,000*

WEIGHTED AVERAGE RATIO:  $\frac{\$25,600}{\$451,950} = 19\%$

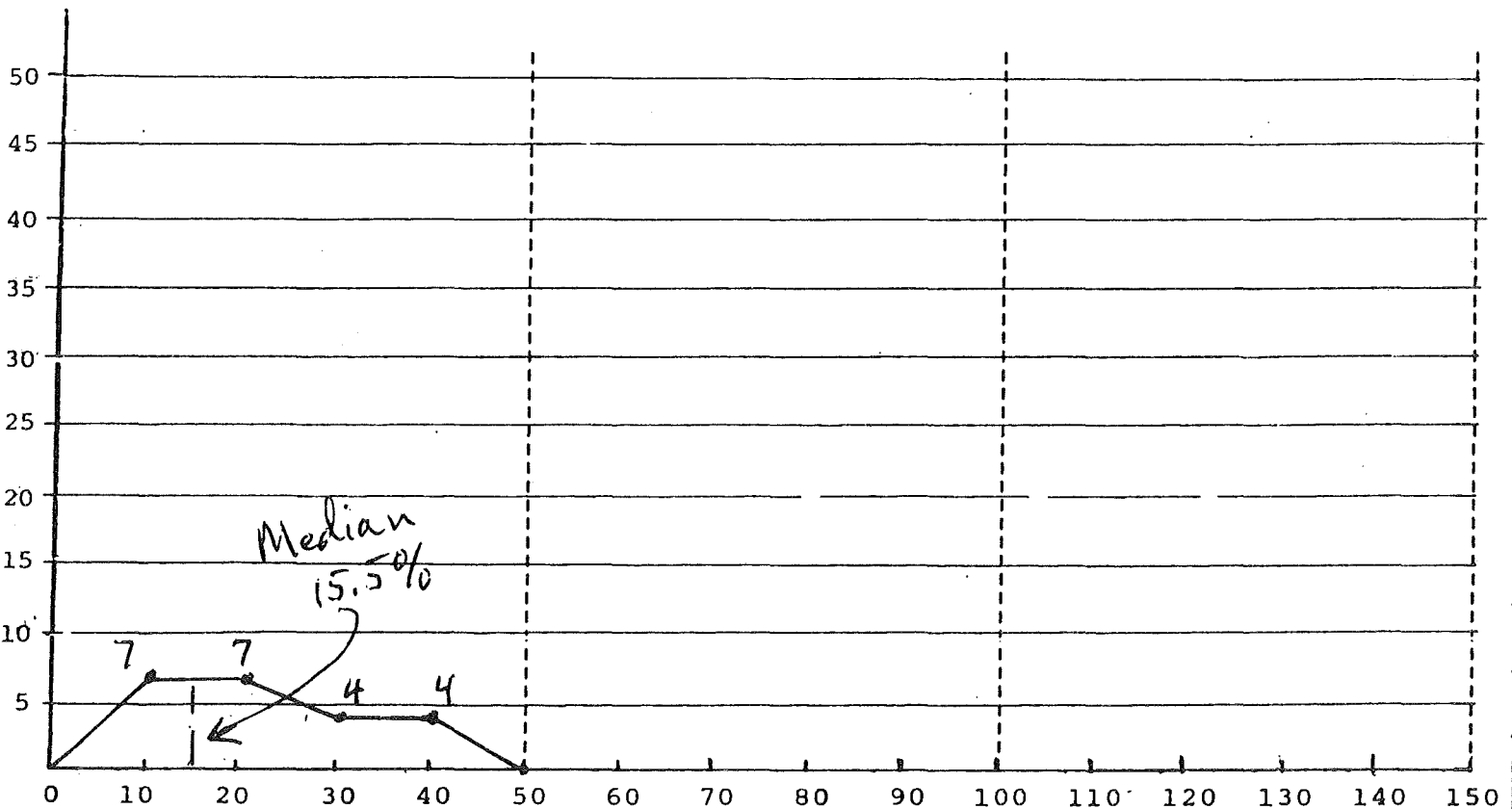
MEDIAN: *15.5%*

AVERAGE RATIO:  $\frac{194}{12} = 16.2\%$

AVERAGE DEVIATION:  $\frac{185}{22} = 8.5\%$

ASSESSMENT QUALITY RATING:  $\frac{8.5}{16.2} = 52$

No. of  
Sales



ASSESSMENT - SALES RATIO PERCENTAGE

1975 RATIO STUDY FOR 1977 STATE VALUATION

STATE OF MAINE

MUNICIPALITY: *Dover-Foxcroft*

COUNTY: *Piscataquis*

POPULATION (1973 estimate): *4,159*

NO. OF PARCELS: *2,538*

NO. OF SALES: *128*

LOCAL ASSESSMENT: *\$36,281,000*

STATE VALUATION: *\$30,200,000*

WEIGHTED AVERAGE RATIO:  $\frac{\$1,781,330}{\$1,776,000} = 100.8\%$

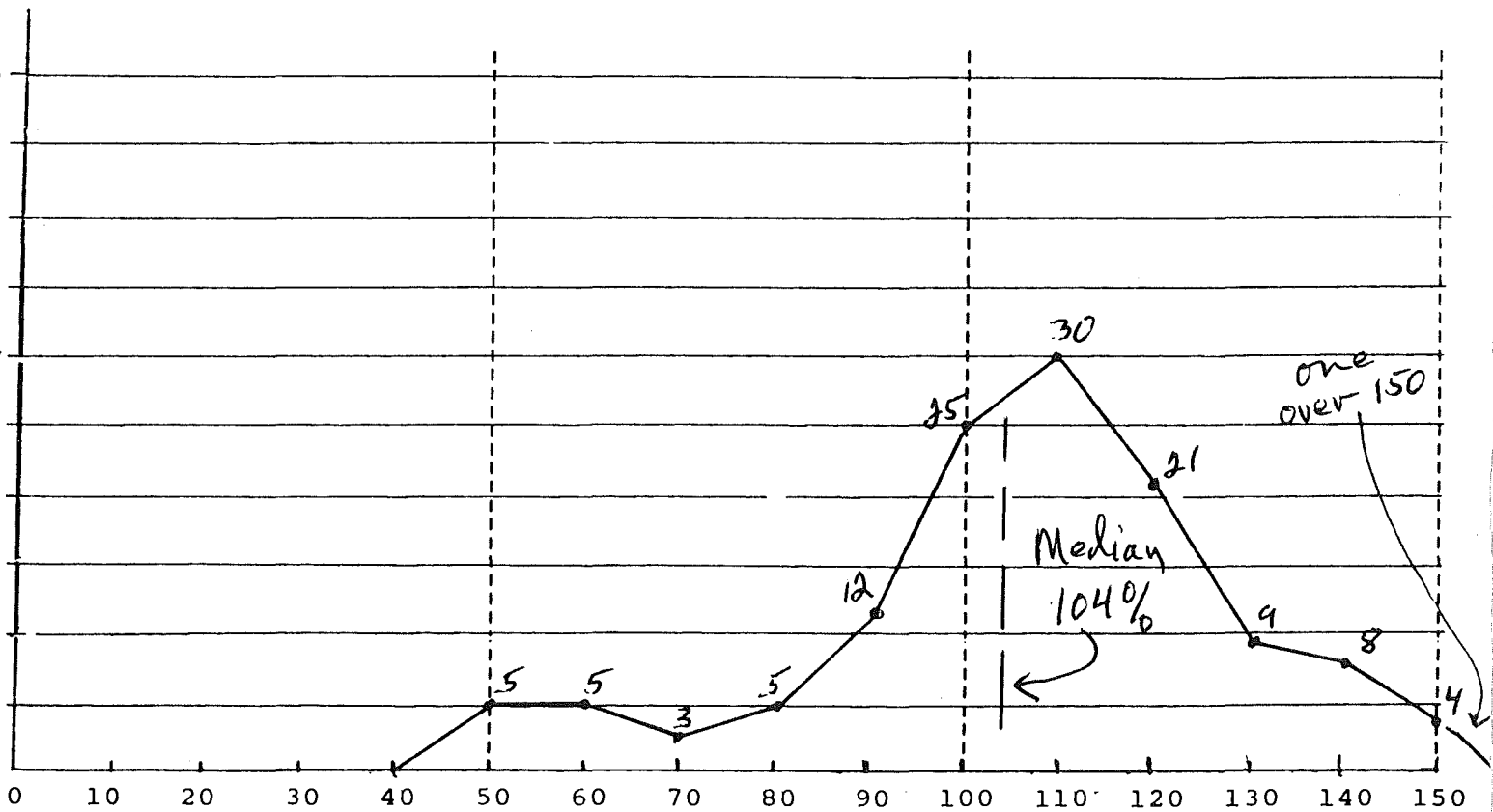
MEDIAN: *104%*

AVERAGE RATIO:  $\frac{6,659}{64} = 104\%$

AVERAGE DEVIATION:  $\frac{2214}{128} = 17.3\%$

ASSESSMENT QUALITY RATING:  $\frac{17.3}{104} = 16.6$

No. of  
Sales



ASSESSMENT - SALES RATIO PERCENTAGE

1975 RATIO STUDY FOR 1977 STATE VALUATION

STATE OF MAINE

MUNICIPALITY: Gorham

COUNTY: Cumberland

POPULATION (1973 estimate): 9,677

NO. OF PARCELS: 3,476

NO. OF SALES: 233

LOCAL ASSESSMENT: \$46,073,000

STATE VALUATION: \$78,100,000

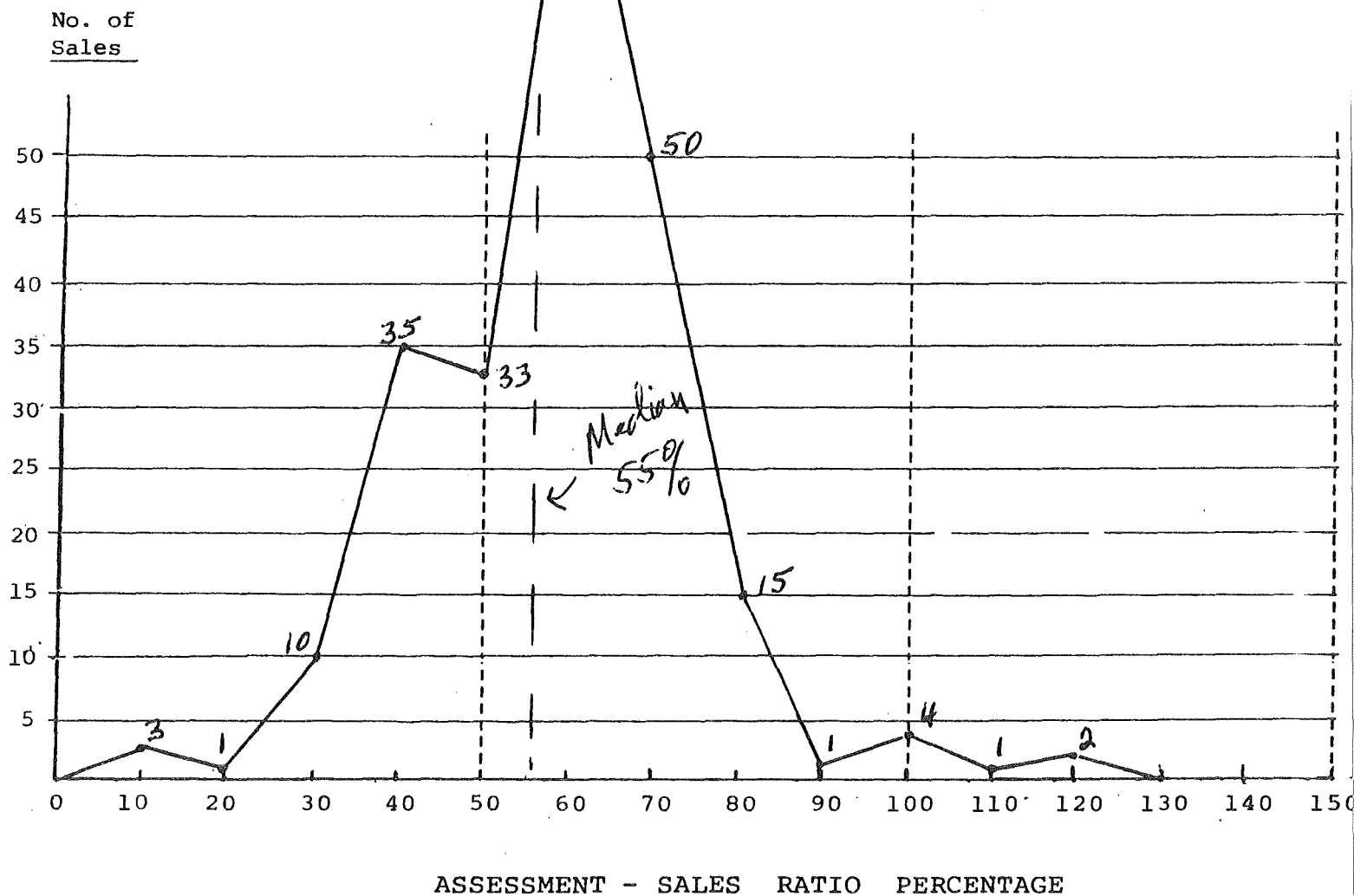
WEIGHTED AVERAGE RATIO:  $\frac{\$2,831,580}{\$5,257,250} = 54\%$

MEDIAN: 55%

AVERAGE RATIO:  $\frac{6,404}{117} = 55\%$

AVERAGE DEVIATION:  $\frac{2,761}{233} = 11.8\%$

ASSESSMENT QUALITY RATING:  $\frac{11.8}{55} = 21.5$



1975 RATIO STUDY FOR 1977 STATE VALUATION

STATE OF MAINE

MUNICIPALITY: *Madawaska*

COUNTY: *Arroostook*

POPULATION (1973 estimate): *5,897*

NO. OF PARCELS: *2,285*

NO. OF SALES: *233*

LOCAL ASSESSMENT: *\$90,966,000*

STATE VALUATION: *\$101,800,000*

WEIGHTED AVERAGE RATIO:  $\frac{\$1,839,831}{\$2,252,453} = 82\%$

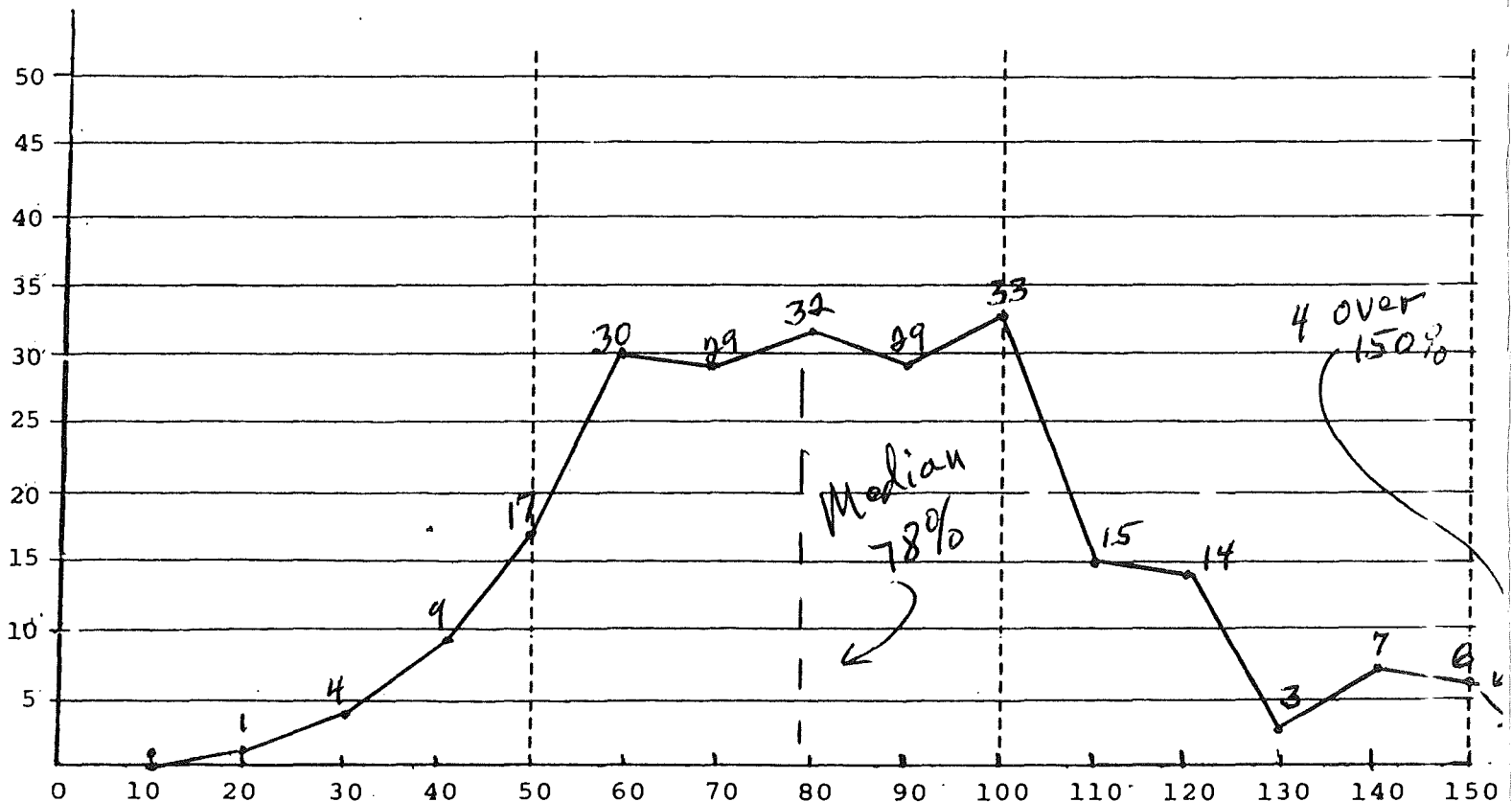
MEDIAN: *78%*

AVERAGE RATIO:  $\frac{9,274}{117} = 79\%$

AVERAGE DEVIATION:  $\frac{5,360}{233} = 23\%$

ASSESSMENT QUALITY RATING:  $\frac{23}{79} = 29$

No. of  
Sales



ASSESSMENT - SALES RATIO PERCENTAGE

1975 RATIO STUDY FOR 1977 STATE VALUATION

STATE OF MAINE

MUNICIPALITY: Machiasport

COUNTY: Washington

POPULATION (1973 estimate): 969

NO. OF PARCELS: 844

NO. OF SALES: 29

LOCAL ASSESSMENT: \$2,247,000

STATE VALUATION: \$7,400,000

WEIGHTED AVERAGE RATIO:  $\frac{\$97,600}{\$411,200} = 23.7\%$

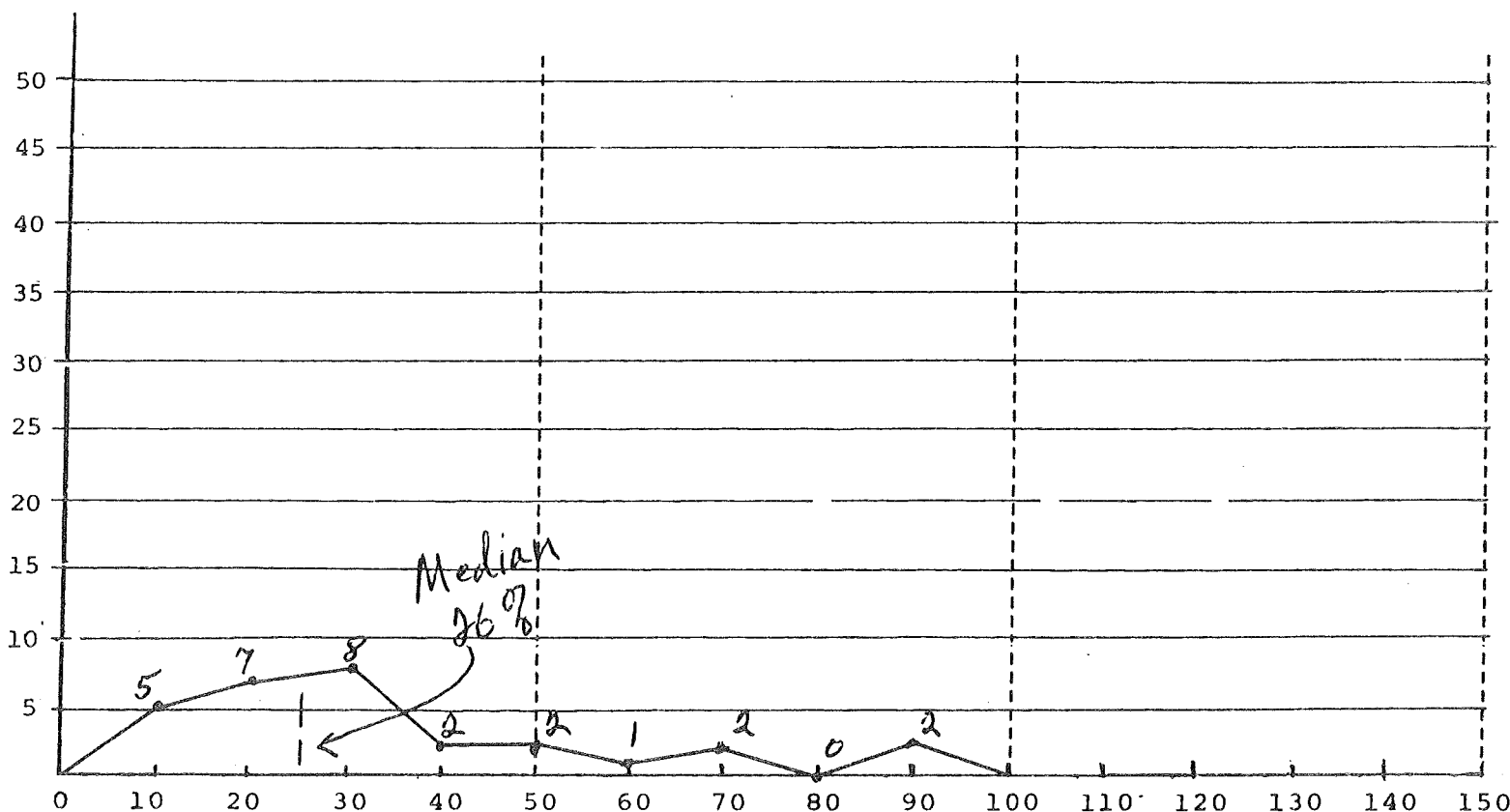
MEDIAN: 26%

AVERAGE RATIO:  $\frac{320}{13} = 24.6\%$

AVERAGE DEVIATION:  $\frac{485}{29} = 16.7\%$

ASSESSMENT QUALITY RATING:  $\frac{16.7}{24.6} = 68$

No. of  
Sales



ASSESSMENT - SALES RATIO PERCENTAGE



1975 RATIO STUDY FOR 1977 STATE VALUATION

STATE OF MAINE

MUNICIPALITY: *Poland*

COUNTY: *Androscoggin*

POPULATION (1973 estimate): *2,316*

NO. OF PARCELS: *1,583*

NO. OF SALES: *81*

LOCAL ASSESSMENT: *\$12,643,000*

STATE VALUATION: *\$31,700,000*

WEIGHTED AVERAGE RATIO:  $\frac{\$442,180}{\$1,233,750} = 36\%$

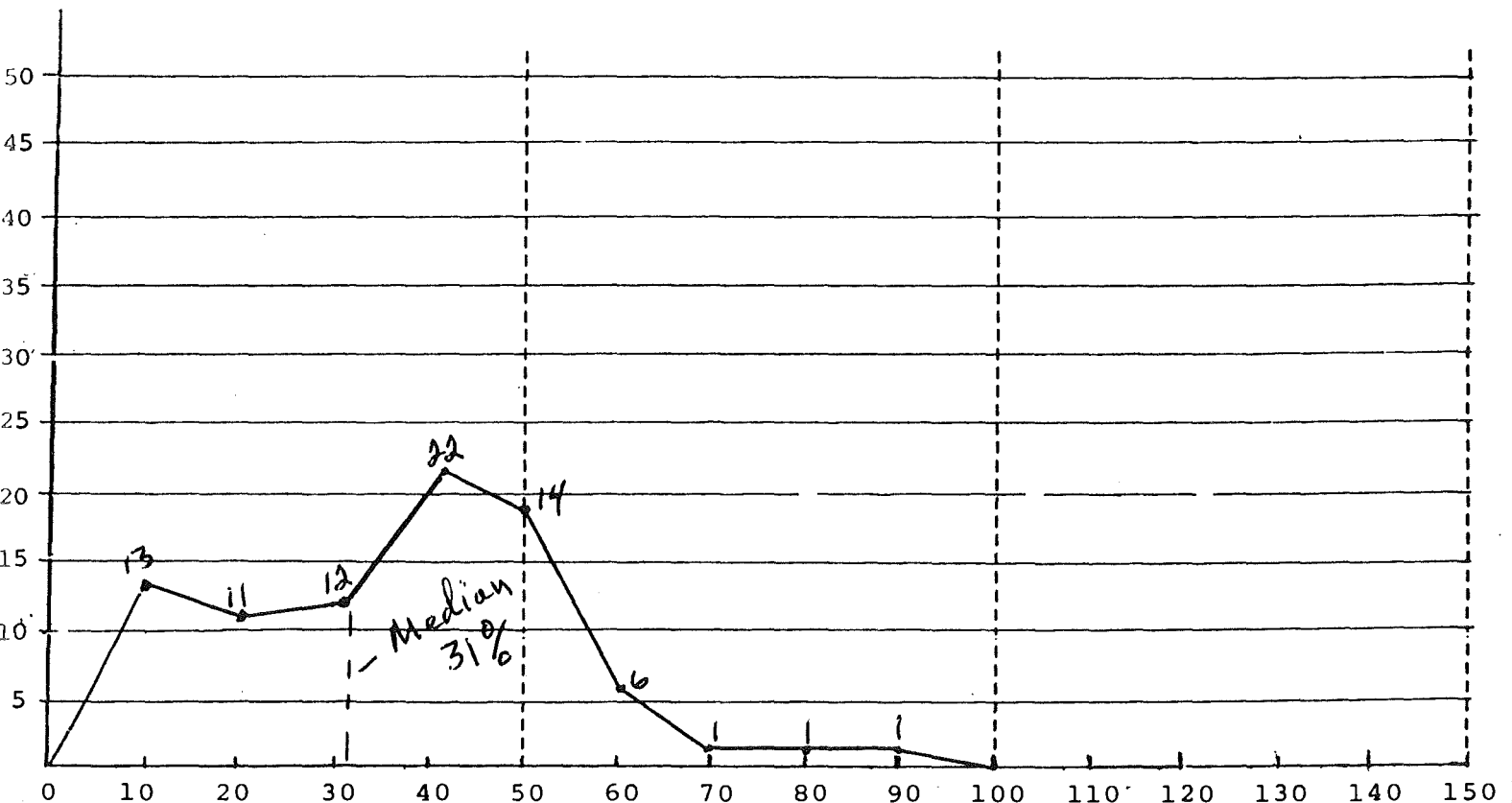
MEDIAN: *31%*

AVERAGE RATIO:  $\frac{1267}{41} = 31\%$

AVERAGE DEVIATION:  $\frac{1139}{81} = 14\%$

ASSESSMENT QUALITY RATING:  $\frac{14}{31} = 45$

No. of  
Sales



ASSESSMENT - SALES RATIO PERCENTAGE