

League of Women Voters Study Property Tax Reassessment in Delaware

Spring 2010

Existing League of Women Voters (LWV) policies call for fairness in tax structures. As a result, the Delegates to the 2009 LWV Convention voted to approve a study committee to “determine the impacts of the counties failure to reassess and to develop facts that could provide a basis for elected officials to support reassessment”. It was noted in the study proposal that the most recent property reassessment took place in Kent County in 1986. New Castle County last reassessed in 1983 and Sussex County last reassessed in 1974.

A recent report from the Delaware Economic Development Office on Delaware Property Tax Rates 2008-2009 states Kent County levies property taxes on 60% of the assessment based on 1987 market value, Sussex levies property taxes on 50% of the 1974 appraised value and New Castle County levies its taxes based on 100% of the July 1, 1983 fair market value. Since three school districts have property that transcend county boundaries they are obligated by law to set two different tax rates within their district in an attempt to get some equity between all of their taxpayers.

The Property Tax Rate report further notes that the “real property taxes in Delaware are imposed at the local level to fund municipal and county governments as well as school districts”.

In addition, some \$74 million in State Equalization funding is distributed to school districts annually based on relative school district property wealth. According to the most recent report Assessment-To-Sales Ratio Study for Division III Equalization Funding: 2008 Project Summary conducted by Edward C. Ratledge at the Center for Applied Demography & Survey Research at the University of Delaware, “Having accurate measures of the assessment-to-sales ratios for each school district is critical....(H)however, these ratios do no reflect changes in property values since the last complete reassessments.” In essence, while a formula is applied to try to ascertain relative wealth among school districts, it is no substitute for current assessments using national standards.

Property tax revenues are an integral part of the local tax structures. The revenues provide the majority of funds for county operations as well as about 28% of the operating and capital (building and maintenance) expenses for public schools. In actuality, the majority of the revenues raised are for the benefit of schools. Based on the most recent budgets listed on the three county web sites:

- New Castle County raises approximately \$110 million in property taxes towards funding a \$164.5 million budget;

- Kent County raises \$9.6 million toward funding a \$43.1 million budget; and
- Sussex County raises \$11.4 million toward funding a \$25.9 million budget for an approximate total of \$131 million.

School districts levy taxes to raise some \$490 million annually.

This results in some \$620 million in property tax raised on an annual basis for both county and school district budgets.

Municipalities are also heavily dependent on property tax levies to fund their budgets which would only add to the total amount of dollars raised on the taxing the value of real property.

Property taxes have provided a very stable and consistent form of revenue since they are less subject to economic downturns. While this may seem a strange statement given the current circumstances in the real estate market, over time, property values and their variations – both up and down – have not had much impact in the actual taxes paid on the property. This is evident by reviewing past county budgets and the various Annual Report of Education Statistics published on-line by the Department of Education.

The authority for taxation of local property comes by virtue of the Delaware Code. The Code also provides the process by which property taxes can be set but it does not require specific time periods for reassessments. As a part of the reassessment process, counties and school districts are restricted in the total amount of dollars they can take in following reassessment. Sections 8002 (c) and (d), Title 9, Del.C specifies that counties may not realize any more than 15% increase in actual revenue over the revenue derived in the fiscal year immediately preceding reassessment, presumably to cover the cost of reassessment, and once reassessment process is complete, the taxes are “rolled-back” to provide the same revenue as was realized prior to reassessments. Section 1916 (b), Title 14, Del.C provides school districts must limit the increase in actual revenue to no more than 10%. This translates to overall lower rates based on higher property values to generate no more than 15% in additional revenue over the previous year. It should be noted that this 15% increase would also include the revenue received for any new properties being built and added to the tax rolls that year.

Property tax collection is further complicated by legislative exemptions. Title 14, Section 1917, Del. C. provides for exemptions of up to \$500 for senior citizens, regardless of income. Title 9, Sections 8329 to 8337, Del. C. provides for special property assessments for parcels of 10 or more acres that are actively used for agriculture, horticulture or forest land. Each county also has a list of tax exempt properties that include state and federally owned property, enterprise zones, and church owned property to name a few of the exempt categories.

There are any numbers of reasons given for the lack of reassessment. The most common concerns are the cost of the reassessment itself. Each county estimated the costs

in the millions when legislation was proposed some 14 years ago that would have required reassessment. Reassessment has also resulted in various property owners being upset with the new values and subsequent tax bills. The most vocal are those owners whose properties have been substantially increased in value and thus subject to some additional taxation. It should be noted that other property owners see reductions and others see no real change in their taxes as a result of reassessment. For political bodies, taxpayer unhappiness, even if it is only a handful of owners, is not pleasant. The other indisputable fact is that the majority of the taxes collected by the counties are for the benefit of the local public schools. The counties are the collecting agency but pass the funds on after collection. Any political body would be averse to taking the "heat" for reassessment when the many of the benefits largely go to other governmental entities such as school districts and towns.

There is another side, however. There is taxpayer equity. Why should some taxpayers pay at a higher rate than others because of the outdated assessments?

On June 29, 2008 the following article appeared in the News Journal Newspaper:

Reassessment gets a look with values at 1970s, 1980s levels, fairness factor is an issue

By Angie Basiouny, The News Journal

The nagging problem of frozen property values in Delaware's three counties may begin to thaw in the coming year -- something that could help bring property values out of the last century and equalize the tax burden among homeowners.

New Castle County has not reassessed property since 1983. That means a house that sells for \$400,000, for example, is taxed at a value of about \$75,000.

Kent County hasn't had a reassessment since 1986, and Sussex County values are frozen in 1974.

"This is an issue that got shoved on the back burner and needs to be front burner," said state Rep. William Oberle, sponsor of House Joint Resolution 22, which asks the state budget director, the controller general and the secretaries of Finance and Education to develop recommendations for reassessment.

The resolution passed in the House on Tuesday, the Senate on Thursday and was headed to the governor's desk. Oberle expects the recommendations to be submitted to legislators in the next session that starts in January.

Delaware's counties haven't reassessed in so long because there is little incentive to do so. Reassessments are expensive and time-consuming, and state law prevents counties from reaping a windfall. If counties reassess, they must roll back the tax rate so the total amount of revenue raised is the same as the previous year's revenue. "You don't do [reassessment] to create money. You do it because it's fair," said Eddy Parker, director of Sussex County's Division of Assessment. "We need to put a system in place where we can update these values, so we never get into this situation again."

Counties are allowed to capture 15 percent more money than the previous year. But that money must be used to cover the cost of the reassessment.

The law is designed to protect citizens from unfair tax hikes, officials said.

But it has an unwanted side effect of putting a greater tax burden on the poor. Those residents who live in less valuable homes pay a similar amount in taxes as do wealthy homeowners.

www.delawareonline.com

House Joint Resolution 22 was signed into law. The resultant committee formed by the Resolution included members of the Departments of Finance, Education, and Management and Budget. Other members included representatives of school districts, the State Board of Education, the Delaware State Education Association, the Controller General's Office and the University of Delaware's school of Public Policy and Urban Affairs. The Committee has provided a very comprehensive look at reassessment and recommendations for proceeding.

That report that was developed appears in Appendix I.

The issue before us is how to proceed. There is a way forward as issued by the report in response to House Joint Resolution 22. That report recommends:

- The State take on the role of implementing reassessment. It would provide for common standards for a single reassessment across the State.
- It further recommends that all property be assessed at 100% of market value with annual revaluations. The report suggests using the Uniform Standards of Professional Appraisal Practice (USPAP) and the International Association of Assessing Officers (IAAO) standards moving forward.
- In addition, the recommendations state subsequently, all property should be physically inspected every nine years or less.
- Since assessments are so out of date, the recommendations include a three year phase in for those properties that have steep increases in assessments and therefore taxes.
- Once in place, it is further suggested that after the initial reassessment, individual properties be capped at 10% increase based on increased property value. This cap would not apply to increases based on overall rate increases passed by county councils, levy court or school district referenda.
- Finally, the report suggests that any overall increase in tax revenue be held to 7.5%, excluding new property growth, for the year following the first reassessment and to 5% for subsequent reassessments.
- Each county would be responsible for paying for its share of the reassessment and could levy a supplemental tax to raise the needed revenue to cover the costs.

The report states that these recommendations were shared with county and municipal governments as well as representative of the real estate community.

Apparently they did not grant any official endorsements or comment, but did understand the need.

For those interested in delving in great detail into how various entities levy property taxes, The Lincoln Institute of Land Policy (www.lincolninst.edu) is a source of land tax policy and information for all 50 states. There is little consistency across the country and therefore difficult to determine the most popular or most common practices. They are all reflections of their own state policies and traditions.

In addition to the recommendations found in the report to Governor Minner and the General Assembly, consideration should be given to the following proposals:

- Expand the State Assessment Board into quasi-state body (similar to the structure of the Delaware Solid Waste Authority) which would be jointly managed by the counties, school districts and municipalities to not only conduct the initial reassessment, but also subsequent reassessments and all related appeals.
- The funding for such an agency would come from a special assessment of the counties, school districts and municipalities who levy property taxes independently from the counties devoted to assessment and reassessment. This percent should be determined by the Assessment Board and on a pro-rata basis and levied on the authority of the State Assessment Board. It should be noted that a number of towns and cities in the State conduct their own property assessments for municipal tax purposes. It brings an economy of scale to bring all entities who levy property taxes into one single assessment/reassessment system with the same standards.
- Reassessments subsequent to the initial reassessment would occur on a rotating basis over a three or four year period as is the practice in Maryland.
- Following the initial reassessment, caps would be established for how much an individual tax bill can increase or decrease in any one year. In the past several years, property values based on market value has actually declined in a number of areas.

Maryland faced this issue as reported in the Washington Post on Tuesday, December 29, 2009 when it was reported that on average, residential property values dropped 19.7% over three years. According to John Sullivan, the Director of the State Department of Assessment and Taxation, the drop was unprecedented. Maryland has a three year revolving assessment program. But in Maryland, while property tax values have declined and the assessments of individual properties may decline, most taxpayers will not see a drop in their property tax because of the annual caps that have been in place to minimize the impact of steep increases in assessed value. Because of the annual caps, most property owners are not paying on the full assessed value and are thus within the range of the decrease.

In conclusion, reassessment is extremely important for taxpayer equity, the distribution of school Equalization Funds and to provide simplicity to the property tax system statewide. There are any number of policy questions that must be asked as noted in the report and recommendations. These should be addressed by the legislature and the counties. The specifics are not as important as the overall importance of reassessing using nationally accepted standards and devising a way to keep assessments current so that Delaware never again finds itself in the current situation. Several ideas have been advanced to stimulate discussion and help other interested parties move the issue forward.

The following action steps should be considered by the League of Women Voters:

- Create awareness of the problem of out dated assessments through press releases, newspaper articles and community meetings that will reach the following:
 - Taxpayers
 - Parents
 - Legislators
 - County and municipal leaders
 - School district officials
 - Other state and local organizations such as Rotary, Lions, American Association of University Women
- Gather legislative support for a new assessment system
- Advocate for legislation to require reassessment

APPENDIX I



STATE OF DELAWARE

November 26, 2008

The Honorable Ruth Ann Minner
Governor
Tatnall Building
150 William Penn Street
Dover, DE 19901

The Honorable Members of the 144th General Assembly
Legislative Hall
411 Legislative Avenue
Dover, DE 19901

Dear Governor Minner and Members of the 144th General Assembly:

Please find enclosed the final report of the committee formed by House Joint Resolution 22, which directed our offices to supply "recommendations to provide a mechanism for a fair and equitable reassessment of all real property within the State." This report details a framework for reassessment that balances the needs of all involved stakeholders while bringing Delaware in line with the professional standards of the assessment industry.

The committee developed this framework after consulting assessment professionals in other states, researching and reviewing the industry's best practices and meeting with stakeholders to gather information on needs and to discuss implementation concerns. Consensus was quickly reached that maintaining county independence while simultaneously increasing State oversight was desirable. The structure of our recommended system achieves that goal through the creation of a single statewide property database that will be populated and maintained by the counties and administered by the State. Development of a single database will also capture cost efficiencies at a time when government resources are at a premium.

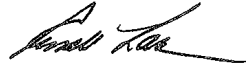
While this report details a fairly comprehensive structure, the committee left some policy decisions unresolved. These issues will need to be addressed if legislative action is pursued. Additionally, the lack of timely reassessment has impacted other areas that were outside of the scope of the House Joint Resolution 22, namely School Equalization funding that might also be addressed if this effort is undertaken. Nevertheless, when presented with the report's general findings, representatives from both the real estate industry and local government commended the committee's work and indicated a willingness to pursue the goals outlined therein.

Thank you for the opportunity to present recommendations on this important topic.

Sincerely,



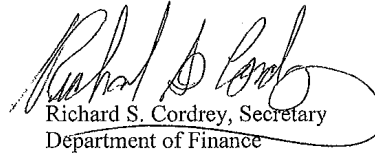
Michael S. Jackson, Acting Director
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Russell T. Larson
Controller General



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Attachment

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EXECUTIVE SUMMARY

Background: Property reassessment is a common topic among Delaware policy makers. The lack of regular and consistent valuation of property is seen as the cause of many problems and undergoing reassessment is heralded as a solution to many more. House Joint Resolution 22 recognized these issues and asked for recommendations on how best to undertake a statewide process of reassessment.

General Structure: The committee charged with developing these recommendations approached the task by looking at previous efforts in Delaware and other states that have gone through similar processes. The 1995 report and subsequent legislation of the Assessment Practice Review Committee served as the foundation for our analysis. The committee quickly saw that most efforts fell into one of two categories- complete state control or local implementation. There are technical and political benefits and drawbacks to each method so the committee attempted to strike a balance that both followed best practices set by the assessment industry and minimized disruption to existing entities.

Implementation: The committee recommends that the State take on the role of implementing a comprehensive statewide reassessment of all property. A State Assessment Board would be created with representation from the Governor, General Assembly, Counties and practitioners to manage and oversee the initial implementation. The State would issue a single Request for Proposal (RFP) and contract with a vendor to develop one property assessment system that would be used statewide by all jurisdictions. This would provide uniformity among the counties and make statewide analysis simpler.

Assessment Practices: All properties would be assessed at 100% of market value with annual revaluations. Commercial properties would be valued according to methodology recommended by the Uniform Standards of Professional Appraisal Practice (USPAP). All properties would be physically inspected at least once every nine years.¹ The initial reassessment would allow for a three year phase in period for primary residences experiencing steep increases. Additionally, a homestead provision would be implemented limiting the annual increase to a primary residence to 10% after the initial phase in. Excluding growth in the assessment base due to new construction, in the aggregate, County and local governments and school districts would be limited to a 7.5% increase in revenue as a result of the initial reassessment. Overall revenue growth resulting from subsequent revaluations would be limited to 5%.

Responsibility / Accountability: Counties and municipalities would maintain responsibility for data collection and conducting the assessments and all Assessors would be required to become licensed by the State within 5 years. During the initial reassessment, counties would work in

¹ The committee offered a nine-year cycle for consideration, but recognized that, ultimately, the frequency may be different depending upon the best practices identified by nationally recognized organizations. For example, the International Association of Assessing Officers (IAAO) statement on this topic specifies that:

“Sales comparison models permit annual reassessment at comparatively little incremental cost. If an accurate database and ongoing maintenance procedures are in place, property inspections can be spread over three to six years, depending on budgetary and other considerations. The sales comparison approach requires less detailed property characteristics data than the cost approach.”

cooperation with the State vendor to conduct the valuations consistent with the Uniform Standards of Professional Appraisal Practice. The new property tax database would be administered and monitored by the State Assessment Board with staffing help as needed from DTI, OMB and the Department of Finance. The State Board will also be given enforcement powers by tying county governments' full receipt of the Realty Transfer tax to local compliance in maintaining the assessment information.

Financing: Each county would be responsible to pay for its share of the reassessment and would be allowed to levy an explicitly identified State-mandated supplemental property tax rate to raise the revenues needed to offset the reassessment's cost.

Possible Next Steps: This framework has been shared with representatives from the State's county and municipal governments as well as with representatives of the real estate industry. While it is true that in neither case did the local government or the real estate representatives offer an "official endorsement" of the proposal, in both cases it can be fairly stated that these groups recognized:

1. The practical need for a better functioning property assessment system in Delaware, and
2. That this report's proposals represent a sound foundation for the development of a more refined blueprint for a new assessment system and, ultimately, the legislation that would accomplish just that.

With this in mind, the representatives from both the real estate industry and the State's local government expressed the willingness and desire to pursue the goals expressed in this report.

INTRODUCTION

House Joint Resolution 22 was passed by the 144th General Assembly charging various executive and legislative agencies with “developing recommendations for the reassessment of real property for the purpose of ad valorem taxation by county governments and school districts.” Additionally, these recommendations should “provide a mechanism for a fair and equitable reassessment of all real property within the State.”

Surpassed in Delaware by only the personal income tax and corporate franchise tax, property taxes are a vital source of government revenues. Proper administration of this tax is critical to efficient and effective government operations. The issue of property reassessment has been a topic among Delaware policymakers since the last assessment was conducted in 1986 in Kent County. Numerous attempts to address this issue have been made while none have been successful. Property assessments in Delaware are anywhere from 22 to 34 years old. The current industry standard is to evaluate the actual market value of properties at least once every six years. Not conforming to these standards creates many equity issues throughout the State and could potentially be a violation of the Uniformity Clause under Article VIII, § 1 of the Delaware Constitution.

The lack of regular and timely valuation of property has many undesirable consequences. Many properties that were given the same valuation in the last assessment have substantially different market values today. Since no reassessment has taken place, many properties are assessed at rates as low as 6% of market value. This means that a home with a market value of \$1 million would have an assessed value of just \$60,000. Because assessments have not kept pace with increases in market values, Delaware’s statewide assessed valuation represents just 21% of the market value (\$23.5 billion vs. \$110 billion).

In addition to the equity concerns raised by this issue, school financing has also been affected by the lack of regular reassessment. Both local tax revenues and State Equalization funding are linked to property values and have been impacted. With no growth or changes occurring in property assessments, local school districts must rely on new property development or local referendum to realize an increase in local revenue. Additionally, Equalization funding calculations must rely on a complicated sales to assessment ratio study to attempt to capture the changes that regular reassessment would capture.

Commercial interests in Delaware have also felt the affects of outdated property assessments. Businesses such as Verizon and DuPont have successfully challenged their assessments throughout the State based on the lack of comparable technology on which to assess the property. Updating property assessments statewide will help ease the number of appeals to local assessment boards and provide the counties with more accurate property data.

While providing recommendations on some of these related issues is outside of the scope of this committee, addressing reassessment will provide a much more stable and equitable foundation on which to make future policy decisions.

METHODOLOGY

The committee attempted to identify the wide array of key issues that any property tax reassessment plan must address. As a means of organizing these issues, it relied heavily on past efforts to modernize the State's approach to property assessments and, in particular, Senate Bill 217 from the 138th General Assembly.

The committee considered three approaches. In terms of fundamental assessment practices, the three approaches were very similar. All three approaches, for example, embraced the adoption of 100% valuation, regular revaluation, and limits on revenue increases resulting from reassessments. The chief difference between these approaches was the division of responsibilities between the State and its local governments:

1. Limited State Role: Modeled on SB 217, with this approach, the State would set new standards for assessment practices. County governments would be responsible for the design, implementation and operation of the new system. The State would monitor the counties to ensure that they are in compliance with the new standards.
2. Full State Control: Under this model, the State would set new assessment standards for assessment practices. It would also assume all responsibilities for the design, implementation, and operation of the new system. County and municipal assessors would become State employees.
3. Hybrid Approach: Under this approach, the State would set the new standards for assessment practices. Three separate county property tax databases would be replaced by a single statewide database to be housed in and administered by the State. Using a private contractor, the State would assist the counties in the implementation of the new system. A State Assessment Practices Board would be formed to oversee implementation. Once implemented, the counties would be responsible for subsequent revaluations and physical inspections. The State would monitor the counties to ensure that they are in compliance with the new standards.

The committee concluded that the hybrid approach was the most desirable and practical approach. Because the State, instead of each county, would issue a single RFP and develop a single property database, the high costs of implementation would be minimized. Operationally, the hybrid approach avoids the administrative complexities and likely political opposition inherent in the full State control model that would see county employees moving to the State payroll.

EVALUATION CRITERIA

The following presentation of issues is intended to form a framework of analysis that will ultimately allow the Governor and members of the General Assembly to evaluate reassessment clearly and efficiently. While the list of issues is intended to be complete enough to form the blueprint draft legislation, the committee recognizes that this list of issues may not be

comprehensive. Moreover, it recognizes that, in the instances in which it has expressed clear preferences, these preferences need to be vetted by the counties and other interested parties.

Standard of Assessment: Properties in Delaware would be assessed according to the Uniform Standards of Professional Appraisal Practice, as promulgated and updated by the Appraisal Foundation. These assessment practices are:

1. National (international) standards for property assessments,
2. Recognized and accepted by professionals and academics as “best practices” and
3. The standard employed by state and local governments across the county to perform accurate and timely property assessments.

Definition of Value (for Income Producing Properties): The committee recommends that valuing income producing property is consistent with the Uniform Standards of Professional Appraisal Practice (USPAP), which, among other objectives, specifies the following goals for discounted cash flow (DCF) analysis:

- DCF analysis is an additional tool available to the appraiser and is best applied in developing value opinions in the context of one or more other approaches.
- It is the responsibility of the appraiser to ensure that the controlling input is consistent with market evidence and prevailing market attitudes.
- Market value DCF analyses should be supported by market-derived data, and the assumptions should be both market- and property-specific.
- DCF accounts for and reflects those items and forces that affect the revenue, expenses, and ultimate earning capacity of real estate and represents a forecast of events that would be considered likely within a specific market.²

Assessment Base: Property would be assessed at 100% of market value.

Execution of Initial Reassessment: The committee identified the following implementation steps:

1. Develop a State RFP requesting professional assistance from a private contractor in the design and implementation of a property tax assessment system. The contractor’s role would include:
 - a. Establishing a single statewide real property database and system to be administered by the State of Delaware,
 - b. Training county and state personnel in the systems’ use,
 - c. Training and assisting county personnel on the conduct of the reassessment itself, and

² USPAP 2008–2009, STATEMENT ON APPRAISAL STANDARDS NO. 2 (SMT-2); SUBJECT: Discounted Cash Flow Analysis.

[http://commerce.appraisalfoundation.org/html/USPAP2008/USPAP_folder/statements/CONCLUSIONS_SMT_2 .htm](http://commerce.appraisalfoundation.org/html/USPAP2008/USPAP_folder/statements/CONCLUSIONS_SMT_2.htm)

- d. Ensuring that all technical specifications and methodologies were made available to the State upon completion of the work.
2. The State Assessment Practices Board, with the contractor's assistance, would oversee implementation.
3. The counties would be responsible for the physical inspection of properties, data collection, and populating the new database.

Scope and Means of State Oversight: A State Assessment Practices Board would be constituted shortly after the enactment of the enabling legislation. The Board would consist of 9 members, with slots filled by the Governor, counties and the General Assembly. Serving part-time, the Board, working in conjunction with local governments, other State officials and staff and the contractor, would manage the implementation process.

Initial Reassessment's Base Year for Valuation: CY 2012, assuming enabling legislation is passed no later than June 30, 2009.

Effective Date for Initial Reassessment: July 1, 2013 (FY 2014)

Subsequent Revaluations: All properties' assessed valuations would be adjusted annually. The committee considered a three-year cycle, with 1/3 of all properties being revalued in any given year, but expressed a clear preference for annual revaluations.

Physical Inspection Cycle: The committee considered a nine-year cycle (1/9th properties per year) assuming, of course, that it is consistent with the guidelines established by the International Association of Assessing Officers.³ The group also contemplated a different and perhaps more frequent cycle for commercial / industrial properties.

Cap on Aggregate Revenue Collected as a Result of the Initial Reassessment: The committee recognized the need for limits on the amount county and school revenues could grow as a result of the initial reassessment. While the level of these limits is a somewhat subjective issue, the committee thought that limiting aggregate local government and school tax growth to no more than 7.5% was a reasonable starting point for discussion. Revenues required to fund the initial reassessment's costs incurred by local governments would be excluded from the cap. The 7.5% limit would not apply to the expansion of the tax base as the result of new construction. Subsequent revaluations would be capped at 5% revenue growth excluding assessment growth.

³ The committee offered a nine-year cycle for consideration, but recognized that, ultimately, the frequency may be different depending upon the best practices identified by nationally recognized organizations. For example, the International Association of Assessing Officers (IAAO) statement on this topic specifies that:

"Sales comparison models permit annual reassessment at comparatively little incremental cost. If an accurate database and ongoing maintenance procedures are in place, property inspections can be spread over three to six years, depending on budgetary and other considerations. The sales comparison approach requires less detailed property characteristics data than the cost approach."

Limitation on Increases in Individual Property Owners' Effective Tax Rates as a Result of the Initial Reassessment: For residential property owners experiencing sharp increases in the tax bills on their primary residences, a three-year phase-in to the updated assessed value would be permitted. The committee discussed different phase-in provisions for commercial and industrial properties, but did not come to a conclusion regarding this issue.

Mechanics of the Cap on Aggregate Revenue Collected as a Result of the Initial Reassessment: (1) Property tax base is reassessed yielding, presumably, much higher valuations, (2) A "rolled-back" rate is established, which when applied to the reassessed base, would produce a revenue neutral result, (3) The local government or school district may propose to increase the rolled-back rate by no more than the amount of the cap. For example:

Old System

- Market Value of Property Tax Base: \$2 billion
- Assessed Value of Property Tax Base: \$1 billion
- Statutory Rate: 2.0%
- Tax Revenue: \$20 million

New System

- Market Value of Property Tax Base: \$2 billion
- Assessed Value of Property Tax Base: \$2 billion
- Tax Revenue Under Old System: \$20 million
- Rolled-back Rate: 1.0% (\$20 million / \$2 billion)
- Revenue Cap: 7.5%
- Maximum New Tax Rate: 1.075% (1% x 1.075)

Should a local government or school district want to increase revenue collections in conjunction with the initial reassessment, it would be required to provide general notice of the planned increase and announce the date, time and place at which the planned revenue increase would be considered.

Appeals Process: The committee did not reject the idea of maintaining the current appeals process, which consists of appeals being heard first by the County Board of Assessment and then, if necessary, appealed to Superior Court. The group did, however, wish to explore the feasibility of adding a State Property Tax Court that could hear appeals from the County Boards. This Tax Court could help ease the burden on the Superior Court. In either case, in anticipation of the large number of appeals originating from the initial reassessment, longer appeal periods would be available.

Ongoing State Operational Responsibilities: The State would be responsible for maintaining the single statewide property database. The State Board would monitor counties' assessment practices and performance and, if necessary, initiate remedial actions against counties that fail to meet accepted standards.

State Staffing: The Office of Management and Budget, Department of Technology and Information, Department of Finance and perhaps other agencies would provide support to the State Board making use of their current complement of employees.

Compliance Standards: The Board would employ the standard developed by the International Association of Assessing Officers (IAAO).

Licensing and Certification of Staff: All assessors employed by local governments must be licensed by the State Board within five years. All contractor assessors hired by local governments must be approved / licensed by the State Board.

Enforcement Provisions: In the event that the State Board determines that a county is not in compliance with accepted standards and procedures, it would initiate remedial action in the form of a partial or complete “hold-back” of Realty Transfer Tax (RTT) revenues. The committee discussed two approaches. The first would call upon the General Assembly to act upon the Board’s recommendation to hold back the RTT revenues. Under the second approach, the State’s RTT statute would be amended to specify that only those counties in compliance with the State Board’s standards are entitled to levy the full amount of the tax.

Financing the Initial Reassessment: Depending upon cash flow requirements, financing could be either in the form of: (1) the State’s issuance of debt coupled with a contractual responsibility from each county to pay their respective share of the debt service (essentially the same arrangement between the State and school districts) or a straightforward add on to the property tax bill specifically identifying a State imposed charge for reassessment expenses.

CONCLUSION

Performing a statewide reassessment presents a wide array of logistical, political and financial challenges. This report organizes those challenges in such a way that it can serve as the foundation for the concentrated effort that would be required to replace the current patchwork approach to property assessment with a uniform system that continually and accurately updates property values. The working group responsible for this report’s preparation has apprised both local government officials and representatives from the real estate industry on the report’s organization of a reassessment’s key evaluation criteria and of the general strategies for the implementation and operation of the resulting assessment system. While it is true that in neither case did the local government or the real estate representatives offer an “official endorsement” of the proposal, in both cases it can be fairly stated that these groups recognized:

1. The practical need for a better functioning property assessment system in Delaware, and
2. That this report’s proposals represent a sound foundation for the development of a more refined blueprint for a new assessment system and, ultimately, the legislation that would accomplish just that.

With this in mind, the representatives from both the real estate industry and the State's local government expressed the willingness and desire to pursue the goals expressed in this report.

Undertaking a statewide reassessment will not only restore the integrity and equity to the property tax base, it allows for administrative efficiencies to be realized. By adopting a hybrid approach to implementation and undergoing one RFP process and standardizing the database used to warehouse the information, the State ensures uniformity among the counties and a simplified method of collecting and analyzing data for statewide purposes while keeping land use and zoning functions at the local jurisdiction level.

This proposal also recommends establishing and enforcing the annual revaluations of property. By establishing a rolling cycle and taking over enforcement abilities, the State ensures the current situation of outdated assessments does not reoccur and provides a stable revenue source for local governments and school districts. Establishing a homestead provision and allowing an initial phase-in will help mitigate any steep increases that may cause hardship for homeowners while still restoring integrity to the administration of the property tax.

ACKNOWLEDGEMENTS

The following people are sincerely thanked for their cooperation in developing this study report:

LWV Members:

Susan Marbury
Susan Mathe
Micky McKay
Bob Taggart

Outside Support and Resource:

Edward C. Ratledge
Peter M. Ross

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http://www.doe.k12.de.us/reports_data/edstats/edstats0708.shtml

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ADDITIONAL REFERENCE MATERIAL

Lincoln Institute of Land Policy: www.lincolninst.edu (Provides tables of data for property tax information on all 50 states)

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