



OFFICE OF INTERNAL AUDIT

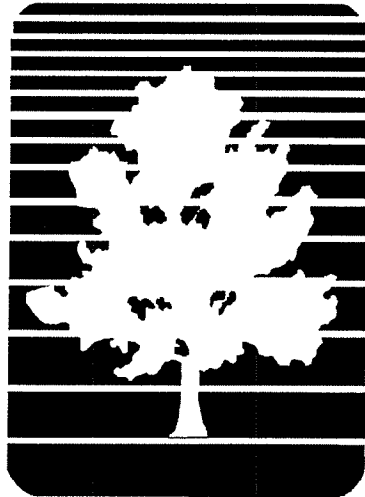
INTER-OFFICE MEMORANDUM

TO: Zachary Williams, County Manager
FROM: Anthony Nicks, Director of Internal Audit
DATE: August 17, 2010

SUBJECT: Reevaluation of Residential Property in Fulton County

The Office of Internal Audit conducted a study evaluating the recent 2010 residential property assessment in Fulton County. Attached is a copy of the report.

If you have any questions, please contact me.



FULTON COUNTY

FULTON COUNTY, GEORGIA

OFFICE OF INTERNAL AUDIT

FULTON COUNTY TAX ASSESSOR'S OFFICE

REEVALUATION OF RESIDENTIAL PROPERTY IN FULTON

COUNTY FOR 2010

August 17, 2010

Reevaluation of Residential Property in Fulton County for 2010

Introduction

The Office of Internal Auditor was asked to complete a study evaluating the recent 2010 residential property assessments. The reevaluation of residential property is generally completed in phases because there is not enough staff to complete an entire reevaluation each year. Before the reevaluation begins, staff suggests a method to the Board of Assessors. If the Board agrees with the method, staff begins the process.

Theoretically, parcels are valued as of January 1, 2010. However, waiting until this data is available would make it impossible to send tax notices on time. Therefore the Tax Assessor's Office (TAO) used sales data from October 1, 2008 to September 30, 2009 to determine actual values. The TAO postulated that there would not be a significant difference between the average prices in their sample, and the average prices on January 1, 2010.

Analysis Process

In order to validate the method used in obtaining the 2010 fair market value, the Office of the Internal Auditor used industry standard calculations to determine how closely the Assessor's calculations correlated to actual sales data. In order to determine actual value as of January 1, 2010, sales data from June 1, 2009 through June 1, 2010 was used.

Sample

The original sample consisted of approximately 300,000 residential parcels. These parcels represented all residential parcels in the County, less any parcels that had begun any appeal process prior to the start of this study. The reason for eliminating parcels that were going through an appeal was because the intent of the study was to validate the 2010 fair market value derived from the assessment process and not the appeals process.

The data was then sorted by neighborhood and the percent difference between the 2009 and 2010 fair market values was determined. Forty-two (42) neighborhoods were then randomly selected from across the County whose percentage decrease in fair market value from 2009 to 2010 averaged 32% and were at least 7%. The sample neighborhood with the largest average decrease between 2009 and 2010 fair market value was 68% (average decrease in value). This resulted in a new sample size of 10,712 parcels.

Sales data was then researched for each of these 10,712 parcels. Parcels that had sales data between June 1, 2009 and June 1, 2010 were included in the final sample. Some sales data (and therefore parcels) were excluded from the final sample due to a sale price that did not indicate a legitimate arm's length or bank transaction. The resulting sample size was 339 parcels. However, this sample was further reduced.

Reevaluation of Residential Property in Fulton County for 2010

The reason for the reduction of the sample size from 339 parcels to 324 parcels was due to a number of parcels that had extremely high assessment ratios. The assessment ratio is the fair market value divided by the sales price for a parcel. This number is used to determine the Coefficient of Dispersion (explained below). In fact, these 15 parcels had such a high assessment ratio, they were determined not to be within two (2) standard deviations from the mean assessment ratio and therefore were deemed anomalies. If left in the sample, they would skew the results so drastically that the findings would be invalid.

The 2010 average fair market value assigned by the TAO for the 324 remaining parcels was \$225,591. This matched very closely with the 2010 average fair market value of the original 300,000 parcels, which was \$224,258. After determining that the sample closely resembled the “population,” the comparison to actual prices began.

Coefficient of Dispersion and Price Related Differential

There are two calculations which are most commonly used by appraisers throughout the Country that determine how equitably assessments have been performed. They are the Coefficient of Dispersion and the Price-Related Differential.

Coefficient of Dispersion (COD)

“The Coefficient of Dispersion indicates how fairly the assessor apportioned the property tax burden among owners of different properties according to their ‘true’ value: a lower coefficient indicates a more consistent assessment.”¹

According to the International Association of Assessing Officers, “...a coefficient of 10% or less indicates a good distribution of assessments for residential properties. Similarly, a coefficient of 15% or less indicates a good distribution for more diverse classes (of property)...”²

Based on Internal Audit’s sample of 324 parcels, we found the coefficient of dispersion to be 34.4%. This indicates an inconsistent assessment for parcels in the sample and suggests a high COD for the entire population of parcels that were modified for 2010.

Price Related Differential (PRD)

The second widely used calculation is the Price-Related Differential.

The Price-Related Differential (PRD) measures the regressivity or progressivity of appraisals. Appraisals are considered regressive if high-value properties are under appraised relative to low-value properties. The most desirable PRD would be 1.00. A PRD greater than 1.00 is an indication that appraisals are regressive.

¹ *Management Policies in Local Government Finance*. 5th Edition, P. 270, ICMA 2004

² <http://www.fairfaxva.gov/RealEstate/SalesRatio.asp>

Reevaluation of Residential Property in Fulton County for 2010

The PRD garnered from the sample of 324 parcels was 1.15, indicating that appraisals in the sample were regressive. In other words, high-value properties were under appraised relative to low-value properties.

Other Findings

In addition to the findings above there were two other significant issues that concerned this audit. The first issue was the manner in which the Tax Assessor's Office communicated the reevaluation method for 2010 to the Board of Assessors. The second issue was record-keeping of the Tax Assessor's Office in the calculation of some of the reevaluations completed for 2010.

2010 Residential Division Revaluation Report

The 2010 Residential Division Revaluation Report was provided by the Tax Assessor's Office to the Board of Assessors on March 3, 2010. This report described the method used for reevaluating neighborhoods within Fulton County for the 2010 fair market values.

In this report, there was an example of a reevaluation calculation applied to a neighborhood. The calculation indicated that after the weighted average of sales prices was determined, it was further reduced by 20% for reasons that were not expounded upon in the description. This led the Auditor to believe that target values were set at 20% below sales prices.

The Auditor arranged a meeting with the Tax Assessor's Office to discuss the calculation. At that meeting the TAO admitted that the example was written incorrectly and that in fact, target values were not reduced arbitrarily by an additional 20%. The TAO explained however, that even though the example was written incorrectly, it was explained correctly to the Board of Assessors and that they understood the process as it actually was completed. To date the Auditor has not requested a meeting with any of the Board of Assessor members to determine their understanding of the reevaluation process for 2010.

In addition, the March 3rd report indicated that if enough data did not exist to determine current prices from their original sample (sales data from 10/1/2008 and 9/30/2009) than the TAO might use other methods including sales data from 10/1/2009 through 12/31/2009. This contradicts the earlier assertion by the TOA that they could not use data from this period because it was not available in time to produce tax notices.

In addition, if it was available, why would this time-frame not have been used to calculate average prices in neighborhoods instead of inferring that sales data from earlier periods would not change significantly?

Reevaluation of Residential Property in Fulton County for 2010

Tax Assessor's Record Keeping

After the Internal Audit Division gathered sales data on its own sample, the neighborhoods with the largest samples were sent to the TAO in order to obtain preexisting data so that the same calculations could be completed and data replicated. However, in addition to receiving raw data from the TAO, the response also included this explanation:

Several neighborhoods you have sent me are in town neighborhoods. In some of these neighborhoods I relied on rental rates and other value indicators as there were great disparities between the assessment levels of the sales in the neighborhoods. I did not record much of this research I did when developing our 2010 values and cannot provide that information. Also, because of the moratorium and other state statutes, the cost value derived by this revaluation exercise may not be the final values applied.

Conclusion

Based on sales data collected from June 1, 2009 through June 1, 2010, the Internal Audit Division found a very high Coefficient of Dispersion (34.4%) and a high Price Related Differential (1.15). This may be due to the fact that the Tax Assessor's Office used a number of different calculations in many different neighborhoods, depending on the information available to them. In addition, the combined methods resulted in a regressive tax favoring higher priced properties within the County.

In addition, the written communication of the reevaluation method did not agree with the verbal description given to the Internal Audit Division. Without interviewing the Board of Assessors it is impossible to know whether or not they understood the calculations being completed by the Tax Assessor to determine 2010 residential values.

Finally, there is no way to replicate the numbers produced by the Tax Assessor's Office. This is due to insufficient record keeping on calculations conducted. Replication is made even more difficult by the fact that the normal calculation described in the March 3rd report seemed to be the exception rather than the rule.