CONTROVERSIES IN PROPERTY ASSESSMENT

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INTRODUCTION

Property assessment may be a somewhat forgettable element of tax administration for some, but it is a peculiar aspect of an important tax and is indeed quite controversial. It is a peculiar institution in that no other major broad-based tax requires a government official to personally visit a taxpayer and subjectively determine their tax bill. Controversy can be traced back to the very beginning of economics with Adam Smith, who, writing in *The Wealth of Nations* (1776), considered property assessment to be a task "so unsuitable to the nature of government" that a property tax based upon market value assessment "would not likely be of long continuance" and would "cause far more vexation than it can possibly bring in relief to its contributors" (p. 899).

Accurate and fair market value assessment remains a difficult challenge, particularly in the midst of the Great Recession's housing crisis. Contrary to Smith's expectations, the United States property tax has a long history of relying upon a publicly administered assessment process to determine taxable value, and it seems unlikely to disappear in the foreseeable future. America's adversarial temperament with respect to the property tax, as evidenced by a long history of property tax revolts that have often involved assessment reform, does suggest that Smith was correct that property assessment would bring considerable vexation to taxpayers. Already far from being a hidden or indirect tax, the assessment process is one more element of the property tax that reminds taxpayers precisely what they are contributing to the provision of public services.

This article summarizes and discusses the contributions the authors have made to our greater understanding of property tax assessment. After providing suggestions of areas for further research on these authors' topics, we then go on to suggest additional topics for further research.

DISCUSSION OF PRESENTED RESEARCH

There is a long-standing, significant interest among researchers in the maintenance of property assessment equity (both horizontal and vertical) over time. William Doerner (2012) presents an analysis of assessment equity in Florida, a case that is interesting because of its well-noted participation in the boom, and subsequent bust, of housing market. Doerner combines county property tax rolls to construct a database that contains more than 150 million property-year observations on actual sales prices and property assessments of parcels in the state of Florida for the period 1994-2011. The data set is used to estimate assessment ratios that are then used to determine the uniformity of property assessments in the state of Florida. Doerner is particularly interested in identifying differences in uniformity both over time and across jurisdictions. He also highlights the impact of the market boom and bust on these variations.

Doerner finds strong evidence that the average parcel of single-family property is under-assessed in the state of Florida and that this underassessment worsened at the peak of the housing market bust. This is an important finding that was not obvious ex-ante. There is substantial literature that demonstrates systematic underassessment, which likely provides assessors (like the elected ones of Florida) political protection, but Doerner provides new evidence that this underassessment becomes exacerbated in a bubble environment within a county. Perhaps more importantly, Doerner finds that high-valued properties were under-assessed relative to low-value properties, which suggests the assessment was regressive. This, too, worsened during the housing bust. In addition to time and cross-sectional heterogeneity, Doerner finds that under-assessment can be explained by assessor's experience in office, stock of single-family homes, and race.

Seth Payton (2012) presented his findings on the effect of uniformity of concentrated foreclosures, using data from Marion County, Indiana. The heterogeneity of the housing market has always been one in which there existed concern that an equilibrium price would not be realized; however, this has mostly been discussed in the context of thin markets that were often rural. The Great Recession's housing collapse and enclave of fore-

closures has drawn this concern into thick, urban areas as well. Not only is the concept of a market equilibrium ambiguous in the environment of a collapsing bubble, but the assessor is confronted with a depletion of comparable, arms-length fair market transactions that could be used to determine a market value.

Payton's examination into the market valuation of assessment by looking into Marion County produces an interesting comparison case, because Indiana only recently adopted market value assessment, providing the most relevant policy alternative of replacement cost valuation. To accomplish this, he first estimates the effect of foreclosure concentration on the assessment sales ratios in 2006 when assessments were based on current market values. He then estimates the effect of foreclosure concentration on the ratio of 2005 to 2006 assessed values. Because the 2005 assessed values are based on replacement costs instead of current market value, the data allows him to determine if foreclosure concentration amplified the differential effect of current market valuation on the uniformity of property value assessments. He finds that a one standard deviation increase from the mean number of foreclosures within one-eighth of a mile resulted in a $1750 reduction in assessed value after the switch to current market value assessment.

Like many sales ratio studies, Payton focuses his research design on those properties that remain "in the market" as defined by arms-length transactions, with the implication being that it deliberately excludes foreclosed properties. As the number of concentrated foreclosures increases, however, it becomes increasingly clear that those foreclosed properties are truly part of the market, whatever that may mean in the disequilibrium conditions of the collapsing bubble. Hopefully, future research will be able to extend on Payton's work to consider what similar policies may be appropriate for both property assessment and assessment appeals in an environment where foreclosures are the norm rather than the outliers.

Even those who are generally unfamiliar with property taxes will often be aware of property tax revolts, the legacy of which is a partial responsibility for numerous limitations on property assessments. However, most property tax protests are appeals from individuals that they have been unjustly assessed rather than broad political movements aimed at reducing the tax burden. The presumed benefit of a micro-appeal process is that it indoctrinates a sense of fairness into assessments that circumvents broader movements like those that were seen in California during the 1970s. Elizabeth Plummer (forthcoming) undertakes a multi-stage regression analysis to investigate the extent to which the appeals process improves assessment uniformity for single-family residential properties. Data from Harris County, Texas, for 2006-2008 are used to estimate the empirical model.

Plummer finds that the initial assessed values of properties for which a successful appeal was filed were 10-11 percent higher than that of properties for which no appeal was filed. There is also evidence that properties with unsuccessful appeals had assessed values similar to properties with no appeals. Together, these findings suggests that, conditional on filing an appeal, the appeals process correctly identified properties that were relatively over-assessed. Additionally, Plummer finds that the adjustments granted through the appeals process were of the correct amount as there is no evidence that property values differed after the appeals process. There is also evidence that the appeals process worked best for low- and medium-value properties. The adjustment for high-valued property is too large in two of the three years included in the study.

Perhaps one of the most misunderstood aspects of the property tax is that its revenue is determined prior to the rate, which is the reverse ordering of the process of other tax instruments. This confusion may be an important source of political cover after a mass reassessment that increases the aggregate property tax base, for it would provide the politician to be the rare magician who could lower the property tax rate, increase spending, and maintain a balanced budget all at the same time. Justin Ross and Wenli Yan (forthcoming) provide some evidence of this phenomenon by investigating a panel of Virginia counties from 2001-2008. The authors employ the Virginia case, in part, because there are no significant assessment limits or property tax limitations (although many taxpayers qualify for exemptions), and the timing of mass reappraisals is determined by a reassessment cycle set by state statute in 1984. They present evidence that the execution of a mass reappraisal increases the property tax levy growth rate by about 2 percent, and that this magnitude is unchanged with inclusion or exclusion of fixed effects or median voter demand variables. Since aggregate property assessments increase by about 20 percent during a mass reappraisal, a 2 percent levy increase seems to be

a sizable marginal effect; even overall, it implies a considerable amount of rate adjustment.

Unfortunately, the uniqueness of the Virginia case in the ability to operate without property tax or assessment limits draws into question the external validity of the result in other states where such limits exist. "Fiscal illusion" carries the normative implication that it is levy growth beyond what the median voter would demand due to a lack of tax salience. In other states, property tax caps that limit what revenues can be raised as a percentage of assessed values may encourage similarly strategic behavior in setting their property tax levies without it necessarily resembling deviations from what the median voter would prefer. In fact, state imposed assessment limits may make it *necessary* for local governments to strategically time their levy increases in order to maintain adequate provision of public services.

CONCLUSION AND OTHER TOPICS IN NEED OF FURTHER RESEARCH

Property assessment has evolved slowly, but considerably, over the last 100 years. In a technological sense, the methods have become more sophisticated. The 1970s and 80s saw the adoption of tax maps and computerized parcel records, while the millennium decade has seen the implementation of Geographic Information Systems interactive software and regression-based assessments. More importantly, the basis of property assessment has changed. A replacement cost assessment basis seems to have proved itself a source of considerable horizontal and vertical inequity, and, subsequently, a market-value assessment process has gradually taken its place. Presumably, this was especially the case where zoning and other land-use regulation successfully drove the market value of the housing stock above the competitive cost of replacing it. Since the primary formal function of the assessment process is to ensure that property owners with similar properties pay similar property tax bills, a replacement cost basis was unsuitable for areas with property value growth. Unfortunately, relatively little is known about the impact of these reforms on the equity of the assessment process. Presumably, these transitions would have had supply-side consequences by reducing the value of the premiums on properties that exist in areas with highly restrictive zoning. This also means that the owners of these properties would have been disproportionately more interested in the practices of the local assessor (especially if that assessor was an elected officer of government).

The implied capitalization of underassessment, upon which there exists some considerable research, also suggests that the traditional measures of horizontal equity may have been misleading. Typically, the level of horizontal inequity would measure the dispersion of assessment-to-market value ratios across the parcels within an assessing unit. The intention of such a measure is to consider this dispersion as a misallocation of the tax burden across similar properties. However, the capitalization of assessment error into market value suggests that property owners were paying a premium for assessment-induced tax discounts. In other words, inequities in tax treatment would be arbitraged away by housing price adjustments, mitigating some of the inequities. The relevant questions to address would be to determine how fully capitalized assessment errors actually are and, subsequently, how does the certainty and magnitude of assessment error differ under the alternative assessment regimes.

The Great Recession has also revealed a difficulty with the concept of what it may mean for "market value" to exist in a housing market bubble and subsequent crash. Is there a meaningful notion of market value for which assessors can strive? What role does an assessment play in a crash? Would there be value to the certainty of constant assessed values, i.e. avoiding mass reappraisals in stabilizing boom-and-bust cycles?

The last few years has also seen the refinement of a theoretical literature on self-valuation of assets. In principle, an owner of an asset would voluntarily reveal their own valuation of a good when it is utility-maximizing to do so. One application of such theory is one that has been discussed among property assessment scholars – the self-assessment of property. Such an assessment regime would ask property owners to report their own assessed values for the purpose of determining the property tax rate and the taxable value of the home. Presumably, this would be done in such a way that the owners would also be agreeing to accept any outside offer for that property, else they would pay a penalty. It would also seem likely that this system would shift the assessment process away from a "willingness-to-pay" estimate of market value to something closer

to a "willingness-to-accept" valuation, suggesting that income effects may generate some vertical inequities.

Finally, with all of the attention on federal debt ceilings, it may be overlooked that the Great Recession is of particular importance to the ability of local governments to issue debt. Many states mandate borrowing constraints that are directly tied to the aggregate assessed values of the local government. Even in the absence of such mandates, creditors would presumably be interested in this information. What has been the effect of these constraints on local government borrowing? Does this phenomenon explain the frequency of reassessment?

The diversity of ideas explored by this panel represents the considerable room for further research to be conducted in the area of property reassessment. Hopefully, they will represent a few of the many future dissertations that shed insight on the behavioral effects of property assessment.

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