Comments on Your Government

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RIPEC

Proposed Changes to the Revaluation Cycle in Rhode Island
Is It Time to Turn the Clock Back?

Introduction

Rhode Island's cities and towns generated $1.8 billion in property taxes in FY 2007, which approximates the estimated combined collection of the State personal income tax ($1.1 billion) and the State sales tax ($900 million). By a wide margin property tax collections represent the Ocean State's single largest tax source. Therefore, it is critical that procedures and practices are in place so that all property taxpayers are treated in an equitable fashion.

Periodic revaluation of property is an effort to provide fairness in the process by changing assessments to reflect current values. Revaluations are a necessary process to address the reality that properties appreciate and depreciate at different rates.

Changing the revaluation schedule can have an impact on equity within and among jurisdictions; the accuracy and similarity of data used to calculate and distribute State aid; and credit rating agencies having less "real time" data to approve the credit worthiness of Rhode Island's 39 cities and towns.

History of Revaluation in Rhode Island

Over the last three decades the General Assembly has enacted legislation aimed at ensuring that property taxes are administered efficiently and fairly. At the heart of this effort has been the requirement that cities and towns keep property valuations as current as possible and the mandating of uniform assessment practices.

The Property Tax and Fiscal Disclosure Act of 1979 required that each city and town undertake a complete reappraisal of all property at least once every ten years in order to alleviate the property tax inequities that can result when assessments are not up-dated on a regular basis. Prior to the passage of this Act, several communities had not conducted a reappraisal for several decades.

In order to keep property taxpayers informed regarding the equity and uniformity of their property tax assessment between revaluations, the State was required to annually publish comprehensive assessment ratio studies of each community, and also publish a measure of assessment uniformity so taxpayers could get a picture of how equitable the property tax burden is being distributed.

In 1997, the General Assembly enacted the current property reappraisal and revaluation schedule. This legislation advanced the ten-year mandate revaluation by one year, requiring a comprehensive revaluation every nine years. In addition, in order to maintain assessments that reflect market changes, the 1997 Act requires cities and towns to conduct two statistical updates during each nine-year cycle.

Municipalities must conduct a statistical update in the third and sixth year after each revaluation. Statistical updates are legislatively defined to be an analysis of rates, updated land values and depreciation tables, and cost tables for all improvements. The legislation also sets forth acceptable methodologies for conducting the update, such as rates/assessment ratio and data quality studies. The State also provides for the initial financing of the statistical updates; however, in recent years the cost has been shifted to local governments. Finally, it should be noted that the property tax reforms of 1997 followed the last comprehensive study of Rhode Island's property tax system (Prepared by Almy, Gloudemans and Jacobs), which included a series of recommendations to improve property tax administration.

During the recent period of significant increase in property valuation, which potentially could have shifted property tax burdens from commercial and industrial properties to homeowners, several municipalities began to implement property tax classification systems. In reaction, legislation was adopted in 2000 that established a statewide standard for local classification schemes.

This legislation provides that upon the completion of any revaluation a municipality may adopt a property tax classification plan. However, local classification plans are limited to four classes of property, and the effective tax rate applicable to any class cannot exceed 50 percent of the rate applicable to any other class. Exemptions from this law given to various cities and towns have limited its uniform statewide application.

Bottomline, statewide revaluation requirements were enacted to have a property tax system that would result in greater equity within and among jurisdictions, and ensure that basic property tax data used to calculate and distribute State aid are accurate and reliable.

Proposal to Change the Revaluation Cycle

Table 1 shows the revaluation schedule by municipality. However, legislative proposals are gaining momentum during this session of the General Assembly to turn back the clock and modify the current schedules for both comprehensive revaluations and statistical updates.

At the request of local officials, various bills have been introduced that would amend the revaluation cycle. These include the following:

Ten-Year Revaluation Schedule – S 0409 would delay for two years the revaluation times for cities and towns who did not conduct a revaluation in 2006 and would delete the second statistical update for communities scheduled to have such updates in 2008 or thereafter. This bill, most importantly, would change the revaluation cycle to every ten years instead of the nine years as currently required, and would replace the three year statistical revaluation schedule with a statistical update every five years.

Table 1

State of Rhode Island's Schedule of Property Revaluations & Statistical Updates

Community	Year(s) of Revaluation	Year(s) of Update
Barrington	2005	2008; 2011
Bristol	2010	2007
Burrillville	2012	2009
Central Falls	2012	2009
Charlestown	2004	2007; 2010
Coventry	2007	2010
Cranston	2005	2008; 2011
Cumberland	2004	2007; 2010
East Greenwich	2005	2008; 2011
East Providence	2006	2009; 2012
Exeter	2011	2008
Foster	2008	2011
Glocester	2010	2007
Hopkinton	2011	2008
Jamestown	2012	2009
Johnston	2012	2009
Lincoln	2012	2009
Little Compton	2009	2012
Middletown	2008	2011
Narragansett	2011	2008
New Shoreham	2012	2009
Newport	2011	2008
North Kingstown	2012	2009
North Providence	2004	2007; 2010
North Smithfield	2012	2009
Pawtucket	2008	2011
Portsmouth	2007	2010
Providence	2009	2012
Richmond	2010	2007
Scituate	2009	2012
Smithfield	2012	2009
South Kingstown	2012	2009
Tiverton	2011	2008
Warren	2006	2009; 2012
Warwick	2006	2009; 2012
West Greenwich	2010	2007
West Warwick	2012	2009
Westerly	2009	2012
Woonsocket	2008	2011

Source: Office of Municipal Affairs.

The Eight-Year Schedule – H 5718 – This legislative proposal would change the current schedule for the required revaluation of property within a municipality to every eight years not the current schedule of nine years. H 5718 would also provide for statistical updates four years from the last revaluation not the current three years.

Twelve-Year Bill – H 5814 – The salient aspect of this legislation would mandate that comprehensive reappraisal be completed every twelve years and statistical updates be undertaken every four years from the last revaluation. In summary, H 5814 would provide for a revaluation system of statistical updates in years 4 and 8, and a complete revaluation in the twelfth year. Compared to the other legislation outlined above, the period between comprehensive revaluations would be considerably longer than the 8 years set forth in H 5718 and the ten-years in the Senate bill. It appears that twelve years would represent the longest revaluation requirement in the United States.

Comments

Before changes are made to the system of revaluating property, there needs to be a transparent discussion of the benefits that would accrue to Rhode Island taxpayers if changes are made. Furthermore, if the revaluation cycle is to be changed, RIPEC believes that the most appropriate options would be the legislation that provides revaluation every eight years with statistical updates in the intervening fourth year (H 5718). This legislation would reduce the cost of two statistical updates in a six-year period, but would still provide for a timely comprehensive revaluation.

It appears that most states require periodic revaluations, with intervals ranging from one year to ten years. How does Rhode Island compare to bordering states?

In 2004 the Connecticut General Assembly (Section 3 of P.A. 04-2-May Special Session) amended that state law require that "revaluations be conducted every five years and physical inspections be made every ten years. This law replaced a requirement where each municipality was required to implement a revaluation every four years with a physical inspection every twelve years.

Massachusetts' schedule of revaluation is described below. In Massachusetts, assessors are required to submit assessed values (defined as "full and fair cash value" or 100 percent of fair market value) to the State Department of Revenue for certification every three years. In the years between certification, assessors must also maintain the values by reviewing sales and the market every year, thereby reassessing values each year.

Changing the frequency of property revaluations could have a number of impacts on cities and towns and their taxpayers in the Ocean State. Dated property valuations can result in property taxpayers being treated unfairly. For example, take neighborhood "A", experiencing declining or slow growing values and neighborhood "B" only a few blocks away, experiencing dramatically increasing values. Until a revaluation is conducted, those living in neighborhood "A" would be paying more than their fair share. Conversely, those residing in neighborhood "B" would be paying less than their fair share.

Maintaining current values is also critical for a number of reasons. More up-to-date property values will provide State and local policymakers with current and accurate data for use to administer the State's local aid programs. For example, as State officials continue to discuss changes to education aid formulas, it is necessary that they have reliable data that accurately reflects the property values in each community.

Furthermore, current property values can provide bond rating agencies with more accurate and timely information. Credit rating agencies use property valuation data to help evaluate a locality's revenue base, economic condition and debt position.

In summary, decreasing the frequency of property revaluations could result in less equity within and among jurisdictions; reduce the accuracy and reliability of data used to calculate and distribute State aid in the future; and result in credit rating agencies having less "real time" data to use in determining the credit worthiness of Rhode Island's 39 cities and towns.