

An Analysis of the Common Level of Appraisal
Determined for the
Unorganized Towns & Gores of Vermont

Prepared by:

Richard W. Heaps
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Key Findings

- PVR encountered significant problems in its 2004 equalization studies of the six UTG entities. Most of the problems stem from the limited number of sales of properties in the UTG. PVR's procedures to deal with these problems were often of dubious validity. Therefore, the accuracy of the CLA determined for the UTG entities can be questioned.
- Because the types of properties in the six entities differ and because of peculiarities in PVR's methodology, the equalization procedure of PVR resulted in different CLAs and different trends in the CLAs over time. CLAs were fairly stable in Avery's Gore and Lewis, but fell rapidly in Averill, Warner's Grant, and Warren's Gore. The trend in Ferdinand's CLA was between these two groups.
- PVR did not properly determine the CLA for Ferdinand, Warner's Grant, and Warren's Gore. It is not clear what direction the error lies, although there are plausible reasons to believe the CLA may have been too low, resulting in higher taxes than warranted. While PVR did not properly determine the CLA for Averill, we suspect the error is relatively small.
- PVR needs to improve its equalization procedures for the UTG entities. We offer several suggestions for improvement, many include the need for adding appraisals to the equalization study.
- The UTG entities can improve the equalization system as well by actively monitoring property sales and PVR's equalization procedures.

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I. Introduction

Each year the Vermont Department of Taxes, Division of Property Valuation and Review (PVR) determines the common level of appraisal (CLA) of properties in the UTG entities. Under Vermont's current education funding mechanism, enacted as Act 68, the CLA directly affects the school property taxes of upper middle and higher income residents and the school property taxes of all non-residential property owners. Therefore, it is essential that PVR determine the CLA with a reasonable degree of certainty.

PVR has procedures in place to determine the CLA in each town in Vermont. These procedures have problems in small towns with limited properties and limited sales. This, however, is a key characteristic of the UTG entities. Therefore, it is not surprising that PVR's determination of the CLAs in the UTG entities is less than satisfactory.

In this study, we review in detail PVR's determination of the CLAs for the six UTG entities in 2004. We note the problems encountered in each town and the solutions offered by PVR. Finally, we compare the results and note where improvements can be made.

This report assumes the reader has a limited understanding of PVR's equalization procedure. Those familiar with the equalization procedure could skip to section IV.

II. How the CLA Affects UTG Property Owners

The major impact of the CLA on UTG property owners is seen in their school property tax bills. Vermont's current education financing mechanism is called Act 68, a reform of Act 60, which had dramatically changed the prevailing practice of education finance in 1997. Under Act 68 there are essentially three classes of school property tax payers in any town:¹

- Low to upper middle income homeowners

Vermont residents who earn less than \$88,000 per year can pay their school property tax based on a percentage of their household income.² They pay 2.0% of their household income, with the 2.0% adjusted upward by the percentage that their town's per pupil spending exceeds the base spending amount per equalized pupil. The 2.0% rate is also adjusted down if the Vermont Education Fund has a surplus, and vice versa. This is generally referred to as Vermont's "Income Sensitivity Program."

For example, if a town spent \$8,000 per pupil and the base amount was \$7,000 per pupil, the town was spending 14.3% above the base amount. Therefore, the tax rate would be:

$$2.0\% \times 1.413 = 2.286\%$$

Conclusion: These Vermont residents are not affected by the CLA determined for their town by PVR.

- Upper middle and above income homeowners

Vermont residents who earn more than \$88,000 per year, pay their school property tax as a percentage of the listed value of their homes. The statewide tax rate is \$1.10, which can be raised or lowered depending on balances in the Vermont Education Fund.

¹ For more detail on Act 68 see "An Overview of Vermont's Education Funding System Under Act 68" by the Vermont Dept of Education at <www.state.vt.us/educ/new/pdfdoc/laws/act68/act68_overview.pdf>

² The maximum level is scheduled to rise to \$110,000 next year. Those at the top of this income range do not get the full benefits of the income sensitivity program. We also note that the State of Vermont still operates a Renter Rebate program that limits the total municipal and education property tax payments of households earning less than \$47,000. That is not considered here.

This rate is raised by the percentage that each town spends over the base amount per pupil. Finally, this rate is adjusted by the (CLA) to account for each town's current listing practice.

For example, if a town is spending \$8,000 per pupil and the base amount is \$7,000 per pupil, the town is spending 14.3% above the base. In addition, suppose the CLA was determined to be 89.04. Then the school property tax rate (levied on the listed value of residential property) is \$1.412.

$$\$1.412 = ((\$1.10 \times 1.143) \div 89.04) \times 100$$

Conclusion: These taxpayers are directly affected by the CLA determined for their town by PVR. If it is determined incorrectly, they pay an incorrect amount of school property taxes.

- All other non-residential property owners

All other non-residential property owners pay a statewide school property tax rate of \$1.54. Non-residential property includes vacation property, business property, and woodland properties among other types of property. This rate is also adjusted to reflect the balances in the Vermont Education Fund. The rate is adjusted by the CLA and is levied on the listed value of non-residential property.

For example, in a town with a CLA of 89.04, the non-residential property tax rate would be \$1.73.

$$\$1.73 = (\$1.54 \div 89.04) \times (100)$$

Conclusion: These taxpayers are directly affected by the CLA determined for their town by PVR. If it is determined incorrectly, they pay an incorrect amount of school property taxes.

Therefore, two classes of taxpayers in the UTG entities care that the CLA is determined properly: (1) upper middle income and higher income residents and (2) all non-residential property owners. The CLA directly affects their school property tax bills. If the CLA is determined to a lower than it should have been, these taxpayers receive school property tax bills that are higher than they should have been.

III. Equalization Procedure of Property Valuation and Review

A. The Basic Idea

Each year the Vermont Department of Taxes, Division of Property Valuation and Review (PVR) determines the common level of appraisal (CLA) for each of Vermont's towns.³ The CLA is the ratio of the listed value to fair market value for the properties in each town.

Consider the following example. Suppose in a given town, all properties were identical and were listed on the town's tax rolls (the Grand List) at \$80,000. Suppose also that we knew all properties would actually sell for \$105,000 today. The common level of appraisal in this town would be 76.19.

$$76.19 = (\text{Listed Value} \div \text{Sales Price}) \times 100 = (\$80,000/\$105,000) \times 100$$

(Note: the higher the sales price compared to the listed value, the lower the CLA.)

B. How Equalization is Performed in Vermont

In order to determine the CLA for a town, the PVR needs to know the listed value of all properties and what the properties would sell for on the open market. The listed value is easily obtained from the town's grand list. But how is the fair market price of each property obtained?

It is estimated based on sales of similar properties elsewhere in town. Each town divides its grand list into fifteen different categories of properties, including single family residences, mobile homes, vacation homes, commercial properties, apartment buildings, industrial properties, farms, woodland, miscellaneous properties, and other categories. Realizing that all properties don't appreciate (or depreciate) at the same rate, PVR collects data on sales of town properties by each of the fifteen categories. These data are easily obtained from the Vermont Tax Department's property transfer tax returns (PTTR). (When properties sell in Vermont, the state levies a tax on the sales. The PTTR is filed with the tax payment.)

Equalization works this way. Suppose in a hypothetical Vermont town there were 500 vacation properties. Further, suppose in the last three years that 75 of these properties sold. PVR could calculate the ratio of listed value to sales price for each of the 75 properties and

³ PVR has published a paper in December 2004 entitled "An Introduction to Vermont's Equalization Study." This is available at <www.state.vt.us/tax/pvr.shtml>

average them together and call this the CLA. A better procedure, and the one PVR employs, simply adds up the listed value of all 75 properties sold and divides this by the sum of the sales prices of these 75 properties. That yields a weighted average ratio, also called the aggregate ratio.

If for these 75 vacation properties, the aggregate ratio equaled 94.56 that would mean that the average vacation property which sold was listed for 94.56% of the sales price. PVR then assumes that all 500 vacation homes in the town as a category are listed at 94.56% of the category's true market value. Therefore, PVR calculates the "equalized value" of all vacation homes in the town as the total listed value in that town divided by the aggregate ratio. If the listed value of all 500 vacation homes was \$45,000,000, PVR would calculate the equalized value as \$45,000,000 divided by the aggregate ratio, which equals \$47,588,832.

$$\$47,588,832 = (\$45,000,000 \div 94.56) \times 100$$

PVR essentially repeats this process for every category of property on the grand list. It then takes the listed value of all property in the town and divides that by the sum of the equalized value of all the categories of properties in the town. This figure is the CLA.

On December 13, 2004, PVR determined the CLA for Ferdinand was 87.91 using this procedure. That is, the listed value of all properties was \$8,428,111. The education equalized value of all properties was \$9,587,703. Therefore, the CLA was calculated to be 87.91.

$$87.91 = (\$8,428,111 \div \$9,587,703) \times 100$$

C. Problems With Equalization in Vermont

There are many problems in trying to apply this equalization procedure in Vermont. PVR has certain procedures in place that try to address some of these problems and, unfortunately, it often ignores other problems or creates additional problems. Consider two big problems often encountered in Vermont.

- What if there are not enough sales to properly estimate the CLA? In the example above we assumed that there were 500 vacation homes in the town and 75 recent sales. But what if there are only 61 vacation homes in Ferdinand and there were just two sales of vacation properties in Ferdinand in the last three years? What if there were 39 vacation properties in Lewis and no vacation homes sold in Lewis in the past three years? Both of these situations happened with the 2004 equalization process for the above towns.

- What if the fifteen categories of properties are inappropriate for a town? Suppose a town has 100 vacation homes. Fifty are lakefront properties that have recently become much sought after and are appreciating in value very rapidly and the other fifty are very basic hunters' camps with no measurable price increases in recent years. Should they be treated as the same type of property? Should PVR assume the same price trends that are affecting the lakefront homes are affecting the hunting camps, or vice versa?

These two problems faced PVR when it tried to determine the CLA for the six UTG entities in 2004. With the first problem, PVR chose a solution that is of questionable validity. PVR simply ignored the second problem.

We next examine the specific 2004 equalization procedure of PVR in the six entities of the UTG.

IV. The 2004 Equalization Study for the UTG

A. PVR's General Methodology As Applied to the UTG Entities

PVR follows the same general procedure to determine the CLA for the six UTG entities that it does for all the other towns in Vermont. That is, it gathers sales data from the property transfer tax system (from the previous three years) and uses these sales data to estimate a listed value to sales ratio for each of the fifteen categories of property in the UTG entities.

However, if PVR treated each of the six entities of the UTG as a separate town it would not have enough sales to properly estimate a ratio for most categories of property. In fact, more often than not, there would be no sales available to estimate the desired ratio. As a result, PVR methodology combines sales data from all of the six entities in the UTG to estimate the needed ratios for each of the six entities. That is, when PVR conducts its equalization study of Averill, it gathers all sales from Averill, Avery's Gore, Ferdinand, Lewis, Warner's Grant, and Warren's Gore and it treats all sales as if they were representative of the price trends in Averill. It does the same when it conducts the equalization studies for the five other entities.

The sales used in the equalized procedure are presented in a computer printout from PVR called the *Certified Sales Report*. In this report we will simply refer to these sales as the *Certified Sales Report*. The 2004 *Certified Sales Report* is in the appendix to this report.

The assumption that the price trends are the same in each of the UTG entities is, at best, questionable. Is it logical to assume that the same price trend affecting lakefront vacation homes on owned property in Averill are affecting non-lakefront camps on leased land in Lewis? PVR makes this assumption.

However, even with this procedure PVR still has many problems with the equalization procedure. For the 2004 equalization study, there were no residential sales (either R1 or R2), no mobile homes sold without land (MHU), no commercial sales (COMM), and no woodland sales (WOOD) in all of the UTG. There was only one sale of a mobile home with land (MHL) and only two sales of vacation homes with six or more acres (V2). In the miscellaneous category, there were thirteen sales, of which ten were in Averill, two were in Warren's Gore, and one in Wells, Vermont (a town southwest of Rutland, which was used in error). Finally, in the V1 category there were 18 sales, with sixteen in Averill and two in Ferdinand.

Because of the lack of sales in each category, PVR adopted the procedure of combining sales from different categories in order to give it a large enough sample to determine a ratio for the equalization procedure.

- First, it combined all housing together (R1, R2, MHU, MHL, V1 and V2). When it did that for the UTG it had a total of 21 sales, but of course 18 of the 21 were V1 sales. Therefore, this ratio was really just the V1 ratio.⁴
- Second, it combined farm sales, woodland sales, and miscellaneous sales together, but with no farm or woodland sales in the *Certified Sales Report* this accomplished nothing.
- Third, PVR combined all sales of all types of property together. This created a pool of 34 sales — about half V1 and one-third MISC and a smattering of others — and determined an aggregate sales ratio of 78.51 from these combined sales. This is called the **townwide** aggregate ratio. Note that the townwide aggregate ratio is very close to the V1 aggregate ratio (which was 72.40) because most of the value in the combined sample was from V1 sales. The thirteen MISC sales had an aggregate ratio of 101.95, but adding these to the V1 sales had only a slight impact on the townwide ratio.

PVR then used this townwide ratio and applied it to every category of property (except electric utility properties and the current use value of properties) in each of the UTG towns in its equalization procedure. This is a highly questionable procedure.⁵

Because the townwide ratio was dominated by V1 sales and because V1 sales are dominated by those in Averill, this means that essentially the grand list in each of the six entities of the UTG was equalized using the price trends from vacation home sales in Averill. The equalized value of a private home in Ferdinand along Route 105, the equalized value of a hunter's camp on South America Pond in the middle of Lewis, and the equalized value of boat-access-only camp on Norton Pond, and the equalized value of a 2,000 acre woodland in Warner's Grant are all essentially determined by the sales price trends of vacation homes the lakes in Averill.

The exception to this is when a town had a large amount of utility property or a large amount of land in the current use program. This will be shown below for Avery's Gore and Warner's Grant.

⁴ The V1 aggregate ratio was 72.40. The combined (R1, R2, MHU, MHL, V1, and V2) aggregate ratio was 74.28, very close to the V1 ratio as could be expected.

⁵ If the sample of properties in the Certified Sales Report was truly representative of all the properties on the grand list, this procedure could be justified. However, that was far from the case with the equalization process reviewed here.

B. PVR's Specific Methodology As Applied to Each of the UTG Entities

We now review the specific equalization procedure of PVR as it was applied to each of the six entities in the UTG. Certain parts of this section are deliberately repetitious as it is anticipated that some interested readers will only focus on the analysis of their town.

1. Town of Averill

Averill had 267 parcels of land on its grand list as of April 1, 2004. Fifty-seven percent of the listed value was in vacation properties (172 parcels were V1s and eleven were V2s). The remainder of the grand list consisted of seven residential (R1 and R2) properties, three mobile homes, one commercial property, nineteen woodland properties (WOOD), and fifty were miscellaneous properties. In addition there were four utility (UE) properties.

PVR conducted the equalization study based on sales from all the UTG entities. Only six of thirty-four sales were not from Averill. PVR did the following in the Averill equalization study:

- PVR used the townwide ratio of 78.51 to equalize all the Averill properties except the utility properties and current use portion of the woodland properties.
- There were no residential sales in the *Certified Sales Report* so PVR used the townwide ratio calculated from the *Certified Sales Report* to equalize the value of the residential homes. The three mobile homes were treated in the same manner. PVR assumes, without any evidence, that the price trend of the properties in the *Certified Sales Report* is a good estimate of the price trend of the residential and mobile home properties in Averill. Given that the sales were not of residential homes, that is questionable.
- There were 183 vacation homes on the grand list, with 172 V1s and 11 V2s. There were twenty sales of vacation properties in the *Certified Sales Report*, with all but three from Averill. PVR chose not to use the aggregate ratio from these vacation home sales because of the wide variance in the listed value to sales price ratios for the individual properties. Instead used the townwide ratio from all sales in the *Certified Sales Report*, a rather dubious decision. However, given the ratios involved, the impact on the resulting CLA was not significant and worked to the town taxpayers' benefit.
- The one commercial property, Quimby Country, Inc., is a complex consisting of a lodge, cabins, a private lake, and lake frontage on Great Averill Pond on over 1,000 acres. The property was listed at \$879,400. This property was equalized by the townwide ratio from the *Certified Sales Report*. That means, PVR equalized it with

sales from the small camps and vacant small lakefront lots that comprised the *Certified Sales Report*. It would only be by chance that this procedure yielded the appropriate equalized value of this parcel.

- There were nineteen woodland (WOOD) properties on the grand list of Averill with a total listed value of \$2,010,438. This was 13% of the grand list total. These woodland properties ranged from 40 acres to 14,447 acres.

The current use portion of these woodland properties, which was 63% of the total listed value in this category, was equalized with a ratio of 84.16. For current use land, PVR uses the CLA from the year before to equalize the current use value.

The non-current use portion was equalized with the townwide ratio. There were no woodland properties in the *Certified Sales Report*. PVR equalized this part of the Averill grand list without having any representative sales.

- There were fifty miscellaneous properties on the Averill grand list, listed at a total of \$2,417,984. In the *Certified Sales Report* there were 13 sales of miscellaneous properties, with ten in Averill. The aggregate ratio from these 13 sales was 101.95. PVR did not use this ratio to equalize the sales because of the high variance of the individual listed value to sales price ratios. Therefore, it chose the questionable strategy of equalizing these properties with the townwide ratio of 78.51.
- Lastly, there were four utility properties on Averill's 2004 grand list. The listed value was \$1,140,000. This was just 7% of Averill's grand list. PVR uses a special procedure to determine the equalized value of utility properties.

We reach the following conclusions about PVR's equalization procedure as applied to Averill.

- The largest two categories of property in terms of value, Vacation and Miscellaneous, were equalized in a less than satisfactory manner, but one which under the current trends probably did not deviate too far from that which could be achieved with a more appropriate methodology.
- The equalization procedure applied to woodland properties was one of convenience and lacked a sound basis. The PVR technique was to use the previous year's CLA to equalize the current use portion of the woodland properties. Therefore, in Averill and the other five entities of the UTG, PVR used the ratios below:

Ratios for CUSE Value of Woodland Properties						
	Averill	Avery's Gore	Ferdinand	Lewis	Warner's Grant	Warren's Gore
2002	93.675	98.471	96.049	101.881	na	93.308
2003	93.786	100.221	97.314	101.623	na	92.751
2004	84.610	100.550	92.000	102.480	na	82.940

These ratios imply the value of the current use portion of woodlands in Avery's Gore and Lewis fell from 2002 to 2004 while it was increasing significantly in Averill and Warren's Gore. This cannot be justified based on any data presented by PVR in the equalization study.

2. Avery's Gore

Avery's Gore had 14 parcels of land on its grand list as of April 1, 2004. Nine were V1 properties, two woodland properties, one miscellaneous property, and two electric utility properties.

PVR conducted the equalization study based on sales from all the UTG entities. None of these sales came from Avery's Gore. PVR did the following in the Avery's Gore equalization study:

- The average listed value of the V1 properties on the Avery's Gore grand list was \$6,989. All of these were camps on leased land. PVR equalized these properties using the townwide ratio from the *Certified Sales Report*. The average listed value of V1 properties in the *Certified Sales Report* was \$41,050 (only two of the 18 were on leased land). None had a listed value as low as \$6,989. Clearly, the V1 properties used to equalize Avery's Gore's grand list were not representative of Avery's Gore V1 properties.
- There were two woodland (WOOD) properties on the grand list of Avery's Gore with a total listed value of \$1,115,910. This was 62% of the grand list total. One consisted of 7,765 acres and the other of 3,693 acres.

The current use portion of these properties, which was 98% of the total listed value, was equalized with a ratio of 100.55. For current use land, PVR uses the CLA from the year before to equalize the current use value. Given the dominance of the current use value of woodland in Avery's Gore's grand list, this means the trend in the recent CLAs will continue relatively unchanged year-to-year. That is, if the CLA didn't change much last year from the previous year, the CLA won't change much this year from last year.

The non-current use portion was equalized with the townwide ratio. There were no woodland properties in the *Certified Sales Report*. PVR equalized this part of the Avery's Gore grand list without having any representative sales. However, it is a very small amount and this improper procedure by PVR had the potential for only a very limited impact on the resulting CLA.

- The two electric utility properties in Avery's Gore had a listed value of \$621,865, which was 34% of the grand list. PVR equalized these properties with a ratio of 100.00 using a special procedure for utility properties.

We reach the following conclusions about PVR's equalization procedure as applied to Avery's Gore.

- The resulting CLA of 98.85 determined for Avery's Gore was very close to the ratios used for the electric utility properties and the current use portion of the woodland properties because these two categories make up 96% of the grand list value. This was be true for each year as shown below.

Avery's Gore - Equalization Ratios				
	V1 and MISC Ratio	UE Ratio	Current Use Ratio	CLA
2002	86.66	104.18	98.471	100.22
2003	81.96	104.62	100.221	100.55
2004	78.51	100.00	100.550	98.85

- The CLA in Avery's Gore is only slightly impacted by whatever process PVR chooses to equalize the V1 homes and matters little on how poorly that process might work.
- Because the CLA determines local tax rates and not the individual category ratios, in recent years this has probably worked to the benefit of the owners of V1 and MISC land in Avery's Gore.

3. Town of Ferdinand

Ferdinand had 92 parcels of land on its grand list as of April 1, 2004. Seven were residential (R1 and R2), seven were mobile homes (MHU and MHL), sixty-one were vacation properties (V1 and V2), one was a commercial property, eleven were woodlots (WOOD), and two were miscellaneous properties. In addition there were three electric utility properties.

PVR conducted the equalization study based on sales from all the UTG entities. Only three of the thirty-four sales came from Ferdinand. They were all vacation properties. PVR did the following in the Ferdinand equalization study:

- PVR used the townwide ratio of 78.51 to equalize all the Ferdinand properties except the UE properties and current use portion of the woodland properties.
- There were seven residential properties on Ferdinand's grand list. Since there were no residential sales in the *Certified Sales Report* anywhere in the UTG, PVR used the townwide ratio calculated from V1 and MISC sales in the *Certified Sales Report*. The average listed value of the residential properties on the Ferdinand grand list was about \$95,000. The average listed value of V1 and MISC properties in the *Certified Sales Report* was \$41,050 and \$16,119, respectively. Therefore, the properties used to equalize Ferdinand's residential properties were not representative of these properties.
- There were seven mobile homes on Ferdinand's grand list, one without land (although land appears with it on the grand list) and six with land ranging from 9 acres to 492 acres. These properties were equalized using the townwide ratio of 78.51. Again, with only one mobile home property in the *Certified Sales Report*, this ratio was most likely not representative of the appropriate ratio for these properties.
- There were 61 vacation homes on the grand list, with 54 V1s and 7 V2s. The average listed value of the V1s was just over \$11,700 and for the V2s just over \$51,000. Forty-eight of the 54 V1s were on leased land. All the V2's were on owned land ranging from 9 to 492 acres. The sales in the *Certified Sales Report* were not representative of the small camps on leased land in Ferdinand nor representative of the V2 homes on large parcels of land in Ferdinand.
- There was one commercial property on the 2004 Ferdinand grand list with a value of \$216,600. It was owned by Vermont Electric Transmission Company and consisted of sixteen acres and one building. It was equalized with the townwide ratio of 78.51. With no sales of commercial properties in the *Certified Sales Report*, this ratio did not come from properties representative of commercial properties.

- There were eleven woodland (WOOD) properties on the grand list of Ferdinand with a total listed value of \$1,783,111. This was 21% of the grand list total. These woodland properties ranged from 71 acres to 8,223 acres.

The current use portion of these properties, which was 68% of the total listed value in this category, was equalized with a ratio of 92.00. For current use land, PVR uses the CLA from the year before to equalize the current use value.

The non-current use portion was equalized with the townwide ratio. There were no woodland properties in the *Certified Sales Report*. PVR equalized this part of the Ferdinand grand list without having any representative sales.

- There were two miscellaneous properties on the Ferdinand grand list, listed at a total of \$68,500. One was 77 acres and the other 137 acres. These were equalized with the townwide ratio of 78.51. None of the MISC properties in the *Certified Sales Report* came from Ferdinand. Of the 13 MISC properties in the *Certified Sales Report*, one had 54 acres of land, two had 3 acres, and the rest one acre or less. The remaining properties in the *Certified Sales Report* were essentially camps on small parcels. Therefore, it is highly unlikely that PVR properly equalized the value of the two miscellaneous properties in Ferdinand.
- Lastly, there were three electric utility properties on Ferdinand's 2004 grand list. The listed value was \$4,442,800. This was 53% of Ferdinand's grand list. PVR used its special procedure to determine the equalized value was \$4,739,491, implying an applied ratio of 93.74.

We reach the following conclusions about PVR's equalization procedure as applied to Ferdinand.

- It is highly speculative for PVR to conclude that the price trends developed in its *Certified Sales Report* are representative of the price trends impacting the type of properties in Ferdinand. Therefore, the application of the 78.51 aggregate ratio from the *Certified Sales Report* to residential, mobile home, vacation, commercial and miscellaneous properties was most likely inappropriate.
- Because the electric utility properties and the current use portion of the woodland properties are such a large portion of the grand list, the special procedures to equalize these properties directly impacted the CLA determined for Ferdinand. However, these two categories of property do not dominate the grand list of Ferdinand to the same extent that they do in Avery's Gore and Lewis. As a result the trend we see in the CLA of Ferdinand is between that of Avery's Gore and Lewis versus that of the other three entities of the UTG.

4. Town of Lewis

Lewis had 43 parcels of land on its grand list as of April 1, 2004. Thirty-nine were V1 properties, one woodland property, and three electric utility properties. PVR conducted the equalization study based on sales from all the UTG entities. None of these sales came from Lewis. PVR did the following in the Lewis 2004 equalization study:

- The average listed value of the V1 properties on the Lewis grand list was \$8,700. It appears that all of these were camps on leased land. The average listed value of V1 properties in the *Certified Sales Report* was \$41,050. Only one had a listed value as low as \$8,700. The V1 properties used to equalize Lewis's grand list were not representative of Lewis V1 properties.
- There was one woodland (WOOD) property of 7,181 acres on the grand list of Lewis with a total listed value of \$656,806. This was 10% of the grand list total.

The current use portion of these properties, which was 96% of the total listed value, was equalized with a ratio of 102.48. This ratio is the CLA for Lewis from the year before, which is the standard procedure used by PVR.

The non-current use portion was equalized with the townwide ratio. There were no woodland properties in the *Certified Sales Report*. PVR equalized this part of the Lewis grand list without having any representative sales.

- The three electric utility properties were listed at \$5,367,800, 84% of the Lewis grand list. These properties were equalized at the ratio of 100.00, set by PVR through a special procedure for utility properties.

We reach the following conclusions about PVR's equalization procedure as applied to Lewis.

- Because the value of the UE properties dominated the total value of the grand list, the CLA eventually determined for Lewis (98.68), had to be very close to 100.00 ratio determined for UE properties. This can be seen by comparing the ratio applied to the UE category and the resulting CLA determined for the Town of Lewis in each of the last three equalization studies. They are very close.

Lewis - Equalization Ratios				
	V1 Ratio	UE Ratio	Current Use Ratio	CLA
2002	92.07	102.54	101.881	101.62
2003	81.96	104.51	101.623	102.48
2004	78.51	100.00	102.480	98.68

- PVR's procedure to use the previous year's CLA to equalize the current use portion of the woodland property also worked stabilize the CLA in Lewis over time.
- The equalization procedure applied to the V1 properties in Lewis has very limited potential to impact the resulting CLA. This can be seen from 2002 to 2003 when the ratio applied to the V1 properties fell dramatically but the CLA went up.
- By using this procedure, tax bills of V1 and MISC properties rose little (due to CLA changes) in Lewis compared to Averill, Warner's Grant, or Warren's Gore.

5. Warner's Grant

Warner's Grant had 2 parcels of land on its grand list as of April 1, 2004. One was a V1 property, and the other was a wood lot. PVR conducted the equalization study based on sales from all the UTG entities. None of these sales came from Warner's Grant. PVR did the following in the Warner's Grant 2004 equalization study:

- The listed value of the one camp on the Warner's Grant grand list was \$6,200. It was on leased land. The average listed value of V1 properties in the *Certified Sales Report* was \$41,050. None had a listed value as low as \$6,200. The V1 properties used to equalize Warner's Grant's grand list were not representative of Warner's Grant one V1 property.
- The one wood lot on the Warner's Grant grand list had 2,005 acres and was listed at \$436,800, which accounted for 99% of the total grand list. This property was not in current use, therefore it was taxed in its entirety based on information derived from the *Certified Sales Report*. There were no woodland properties in the *Certified Sales Report*. PVR equalized this part of the Warner's Grant grand list without having any representative sales. The acreage of the properties in the *Certified Sales Report* was very small. Twenty-eight of the thirty four properties had one acre or less. Only one had 52 acres of land, yet these sales data were used to equalize a 2,005 acre property. This is clearly an inappropriate procedure.

We reach the following conclusions about PVR's equalization procedure as applied to Warner's Grant.

- It is highly speculative for PVR to conclude that the price trends developed in its *Certified Sales Report* are representative of the price trends impacting the two properties in Warner's Grant. Therefore, PVR more likely than not incorrectly determined the CLA for Warner's Grant.

6. Warren's Gore

Warren's Gore had 58 parcels of land on its grand list as of April 1, 2004. Two were private residences (one R1 and one R2), forty-four V1 properties, one was a V2 property, one commercial property, two wood lots, and 8 miscellaneous properties. There were no electric utility properties which distinguishes it from the other UTG entities and directly affects the CLA given PVR's equalization procedures (compare the equalization procedure in Warren's Gore to that in Lewis).

PVR conducted the equalization study based on sales from all the UTG entities. Two of these thirty-four sales came from Warren's Gore, both miscellaneous properties. PVR used the townwide ratio of 78.51 to equalize the Warren's Gore R1, R2, V1, V2, COMM, WOOD, and MISC properties.

PVR did the following in the Warren's Gore's 2004 equalization study:

- There are two year-round properties in Warren's Gore. There were no sales of year-round residences in the *Certified Sales Report*. Therefore, there were no comparable properties used to equalize the Warren's Gore grand list. It is unlikely that PVR properly equalized these properties.
- The forty-five vacation homes consisted of the following: eleven are camps on leased land with an average listed value just over \$11,000; thirty-three are camps on owned property with an average listed value over \$65,500; one was a V2 property with 8 acres on Norton Pond. Several of these properties could only be accessed by boat. A few were on islands in Norton Pond. PVR equalized these properties using the townwide ratio of 78.51 from the *Certified Sales Report* properties. None of the *Certified Sales Report* vacation properties were from Warren's Gore. None were accessible only by boat.

All but two of the eighteen vacation properties in the *Certified Sales Report* were on owned land. There's little reason to believe the same price appreciation pattern from Averill held for Warren's Gore.

- The one commercial property in Warren's Gore was on Route 114 near Norton Pond and was listed at just \$3,000. It appears to actually be a small camp. Given the listed value, the equalization process has little effect on the CLA.

- There were two woodland (WOOD) properties on the grand list of Warren's Gore with a total listed value of \$823,593, which equaled 24% of the grand list total. One property was 3,351 acres and the other 2,179 acres.

The current use portion of these properties, which was 39% of the total listed value, was equalized with a ratio of 82.940. This ratio is the CLA for Warren's Gore from the year before, which is the standard procedure used by PVR.

The non-current use portion was equalized with the townwide ratio. There were no woodland properties in the *Certified Sales Report*. PVR equalized this part of the Warren's Gore grand list without having any representative sales. The acreage of the *Certified Sales Report* properties was very small. Twenty-eight of the thirty four properties had one acre or less. Only one had 52 acres of land. It is unreasonable to conclude the price trends from these small, non-woodland properties are representative of the price trends of the two large woodland properties of Warren's Gore.

- The eight MISC properties in Warren's Gore are mostly small lake front lots, but not exclusively. The *Certified Sales Report* had 13 sales of MISC properties, two from Warren's Gore. This looked more promising than much of the rest of the equalization. However, it appears that both properties are camps, one on owned land and one on leased land. The equalization procedure for these properties suffers from the same problems as the equalization procedure for V1 properties.

We reach the following conclusions about PVR's equalization procedure as applied to Warren's Gore.

- It is highly speculative for PVR to conclude that the price trends developed in its *Certified Sales Report* are representative of the price trends impacting properties in Warren's Gore. Therefore, the application of the 78.51 aggregate ratio to the R1, R2, V1, V2, COMM, WOOD, and MISC properties in Warren's Gore more likely than not incorrectly determined the resulting CLA calculated for Warren's Gore.

C. Conclusion to Specific Equalization Studies

PVR has a procedure to determine the CLA of the towns in Vermont. While this procedure may work sufficiently well in towns with many similar parcels of land and sufficient sales of these parcels, it doesn't work well in towns with limited parcels and limited sales. Given the limited number of parcels in the UTG entities and the limited sales, PVR's application of its standard equalization procedure to the UTG grand list was often inappropriate.

D. CLA History

Because the six UTG entities have a different mixture of properties on their grand list, the CLA determined by PVR using the same data and same methodology can lead to very different results. Those entities with a large portion of the listed value in utility properties and/or under current use, could see a different trend in their CLA over time from those towns without utility and current use properties. Consider the recent history of the CLA shown below.

Recent History of CLAs in the UTG						
	Averill	Avery's Gore	Ferdinand	Lewis	Warner's Grant	Warren's Gore
FY02	103.68	104.48	103.19	108.50	103.71	103.72
FY03	93.68	98.47	96.05	101.88	92.16	93.31
FY04	93.79	100.22	97.31	101.62	94.56	92.75
FY05	84.16	100.55	92.00	102.48	81.96	82.94
FY06	79.81	98.85	87.91	98.68	78.51	78.90
Change	-23%	-5%	-15%	-9%	-24%	-24%

Two of the six entities of the UTG (Avery's Gore and Lewis) saw their CLA decrease by only 5% and 9%, respectively. This occurred because of the dominance in the grand list of electric utility properties and woodland properties in current use.

Three of the six entities of the UTG (Averill, Warner's Grant, and Warren's Gore) saw their CLA decrease 23% to 24% from FY02 to FY06. (This is consistent with a 30% price appreciation in this period.) This occurred because these three entities have grand lists that are dominated by V1, MISC, and/or WOOD (not in current use) properties.

Ferdinand's CLA decrease was in between because the equalization of its UE properties yielded different results than in Averill, Warner's Grant, and Warren's Gore.

V. Looking Ahead to the 2005 Equalization Study

We expect the recent trends in the CLA for the UTG entities will be accentuated for the 2005 equalization study. This is based on the sales contained in the *Preliminary Sales Report* dated June 30, 2005.

We estimated the townwide ratio that PVR will calculate in the 2005 *Certified Sales Report* by incorporating the recent sales (that is from April 1, 2004 to March 31, 2005) from the *Preliminary Sales Report* and dropping the oldest year's sales. We assume that two sales from the *Preliminary Sales Report* will be changed: the Shorter to Morash sale will be dropped and the Nugent to Moore sale will use a listed value of \$109,300, not \$161,500.

Continued price appreciation will be seen in the 2005 *Certified Sales Report*. Whereas the townwide ratio in 2004 was 78.51 is it likely to be in the neighborhood of 65.00 to 70.00 in 2005. Remember, the townwide ratio is not the CLA. But given PVR's equalization procedures, this will:

- Have little effect on the CLA in Avery's Gore and Lewis. The CLA will drop from about 99.00 to about 97.00.
- Averill, Warner's Grant, and Warren's Gore will see their CLA's fall significantly. Averill's CLA will drop from 79.81 to about 72.00. Warner's Grant's and Warren's Gore's CLA will drop from about 79.00 to about 68.00.
- Ferdinand's CLA change will fall in the middle, declining from 87.91 to about 84.00.

These changes should be considered illustrative of what will likely happen but should not be considered precise estimates.

VI. Recommendations to the UTG

Because the trend in the CLA has not been the same in all six entities, our recommendations are not the same for each entity. We discuss each in turn below.

A. Avery's Gore and Town of Lewis

We recommend Avery's Gore and Lewis request no changes to the equalization procedure. The CLA's have decreased only slightly implying PVR estimates limited land value appreciation in these two towns. From a taxpayer standpoint, that's not objectionable.

B. Town of Averill

The equalization process for the Town of Averill comes closer to having sufficient data to accurately equalize the grand list than in any town in the UTG. Unfortunately, from a taxpayer viewpoint, these data show fairly rapid land value appreciation, in the neighborhood of 30% from FY02 to FY06.

The 2004 equalization process calculated CLA of 79.81 and a COD of 21.55. With the CLA less than 80, the State of Vermont will require a townwide reappraisal of properties. This is expected to occur in time for the 2007 tax year. The COD is relatively large, reflecting a wide divergence in sales prices versus listed value from property to property. This also indicates the need for a reappraisal. The reappraisal most likely will not change the overall tax burden in Averill.

We recommend that UTG authorities carefully examine new sales at two levels. This is important not only to Averill, but to all the six entities of the UTG as sales from Averill are used to equalize all six grand lists.

- At the time of the sale: When the sale occurs and the property transfer tax return is filed with the town, the appropriate authorities in the UTG should do whatever is possible to be sure that: (a) the sales price includes nothing but the real estate. Any additional items (such as docks, boats, furniture, etc.) that are included in the sales price make the appreciation of a property appear to be higher than it actually is, and (b) authorities should make sure no improvement had been made to the real estate since the last reappraisal that was not included in the listed value. Any such improvement causes the listed value to be too low and the appreciation to be calculated to be too large. We understand that much of this is done with the Sales Verification Reports. We suggest this practice be continued and be given a priority.

- During the equalization study: Each town is sent a *Preliminary Sales Report* during the summer showing sales in the twelve months prior to the grand list date. UTG authorities must examine this report for incorrect information as well as invalid sales. UTG authorities also must make sure the information gathered from applying the recommendation in the bullet above should also be reflected properly in the *Preliminary Sales Report*. Next, the equalization study each town is sent the *Certified Final Computation Sheet*, usually in December. This report should be examined to see that: (a) the changes noted with the *Preliminary Sales Report* were correctly entered in the *Certified Final Computation Sheet*, and (b) that sales from more than a year ago which were properly eliminated (or modified) from the *Certified Final Computation Sheet* at that time have not reappeared (or the modification dropped) in the *Certified Final Computation Sheet*.

Finally, UTG authorities should give consideration to tracking lakefront versus non-lakefront property sales (in Averill as well as elsewhere). If price trends are such that lakefront properties are escalating in value faster than non-lakefront homes and selling more frequently, it will be beneficial not to have PVR equalize non-lakefront properties with lakefront sales.

C. Ferdinand

The driving factor in Ferdinand’s falling CLA is the increasing value of its electric utility properties compared to the other entities in the UTG. Ferdinand should ask PVR for a detailed explanation of the determination of the UE value in Ferdinand and compare that to what was done with UE properties in the other UTG entities to be sure Ferdinand is treated fairly. As the table below shows, all UE ratios do no change at an equal pace.

Ratios Used for UE Properties in the UTG						
	Averill	Avery’s Gore	Ferdinand	Lewis	Warner’s Grant	Warren’s Gore
2002	106.87	104.18	100.35	102.54	na	na
2003	103.65	104.62	97.19	104.51	na	na
2004	88.47	100.00	93.74	100.00	na	na

Ferdinand should also question the equalization process for its residential and vacation properties.

- Ferdinand’s residential properties generally lie along Route 105, east of Island Pond. They were equalized by PVR using price trends from vacation properties on Averill Pond. It is certainly questionable that these properties have followed lakefront property price trends.

Ferdinand should look to price trends on residential property in neighboring Island Pond, request that PVR conduct (to professional standards) several appraisals of these properties, or hire a trained real estate appraiser to conduct three appraisals and present this information to PVR during the equalization process.

- Ferdinand's vacation properties are very different from the lakefront properties along Averill Pond, yet PVR essentially uses Averill Pond sales data to equalize these properties. Ferdinand should request/demand that PVR conduct several appraisals of non-lakefront vacation properties, or hire a trained real estate appraiser to conduct three appraisals and present this information to PVR during the equalization process.

D. Warner's Grant

There are only two properties in Warner's Grant. The CLA is determined by the process PVR uses to equalize the one large woodland property which made up 99% of the grand list value. The value of this property was determined using the townwide ratio of 78.51, which reflects price trends on small land parcels and vacation homes.

Warner's Grant should request/demand PVR to conduct several appraisals of woodland properties in Essex County or hire a trained real estate appraiser to do so.

Also, it would be beneficial to the woodland property owner to enroll in the current use program by the time of the 2007 reappraisal. Given PVR's procedure for equalizing current use land, this should stabilize the tax rate in Warner's Grant in the same manner as in Avery's Gore and Lewis.

E. Warren's Gore

The driving factor in the determination of the CLA in Warren's Gore is the equalization of its vacation properties. The vacation homes on Norton Pond are assumed by PVR to follow the same price trends as those on Averill Pond. None of the vacation sales in the Certified Final Sales Report were from Warren's Gore. Therefore, no one knows if this is true or not. Warner's Grant should request/demand PVR to conduct (to professional standards) several appraisals of Norton Pond properties or hire a trained real estate appraiser to do so.

VII. Appendices

Attached is the six-page *Certified Sales Report*, one-page *Certified Sales Class Summary Report*, and one-page *Certified Sales Town Summary Report* from Averill dated September 14, 2005. The same reports were prepared for all six entities of the UTG.

Also attached are the six first pages of the *Certified Final Computation Sheet* dated December 13, 2004 from each of the six UTG entities.