



**Audit of City
Assessments for
Commercial Property**

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City Comptroller
City of Milwaukee, Wisconsin

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January 4, 2010

To the Honorable
the Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of City Assessments for Commercial Property. To assist in this audit, we engaged the firm Landretti & Company, LLC, experts in Wisconsin property assessment and appraisal practices.

The audit concludes that the valuation methods followed by the City Assessor's Office adhere to professional appraisal practices and are in full compliance with Wisconsin law. The audit further concludes the total assessed value for commercial property that the City Assessor calculates is a more accurate estimate of fair market value than the equalized value that the Wisconsin Department of Revenue calculates.

Audit findings and recommendations are discussed in the Audit Conclusions and Recommendations section of the report. The audit consultant's report is in Appendix 1, and Appendixes 2 through 6 provide additional information regarding assessments, taxpayer appeal rights, responsibilities of the Board of Assessors and the Board of Review, how the State and the City calculate property values and fair market value, as well as a glossary of terms. The response from the City Assessor follows Appendix 6.

Appreciation is expressed to the staff in Milwaukee's City Assessor's Office for the full cooperation extended to the auditors.

Sincerely,

W. MARTIN MORICS
Comptroller

I. Scope and Objectives

This Audit of City Assessments for Commercial Property covers the assessments for commercial real estate in the City of Milwaukee by the City Assessor's Office for 2007 and 2008.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The Office of the Comptroller believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

The objectives of the audit were to:

- Determine the degree to which commercial property assessments comply with Wisconsin statutes.
- Evaluate how commercial assessments compare with market values at the time of sale.
- Determine whether the assessment process for commercial properties within TIDs is consistent with other commercial properties within the City.
- Identify and evaluate the effect that alternative values of equalized value for commercial property as determined by DOR would have on the City, including the effect on levy limits.

The audit also discusses the equalization practices of the Wisconsin Department of Revenue (DOR) and describes the methods used by DOR to determine equalized values for the City of Milwaukee. It then compares the differences between assessment methods used by the City and equalization methods used by DOR.

The audit utilized the services of Landretti & Company, LLC (referred to as the audit consultant), experts in Wisconsin property assessment and appraisal practices, to analyze City assessments and State equalized value. Audit analyses performed by auditors in the Office of the Comptroller are identified as performed by "audit staff."

II. Background

A. Wisconsin Constitution and Statutes

Article 8 of the State Constitution states that each Wisconsin taxpayer should pay a uniform and fair share of taxes, neither more nor less, regardless of where in the State the taxpayer owns real estate. State law uses the process of “equalization” to provide assurances that local assessments and the distribution of property tax levies meet Wisconsin’s “fair share” standard. The equalized values determined by the Wisconsin Department of Revenue (DOR) form the basis for the assurances that the process of equalization provides.

Wisconsin law also requires local assessors to value each property at fair market value. As property values change in the market place, those changes must be reflected on the succeeding year’s assessment roll. Fair market value is the price a typical, well-informed buyer would pay for a property in its present condition to a willing seller who is not under pressure to sell. Fair market value is discussed further in Appendix 5.

B. City Commercial Assessments

The City of Milwaukee has three classes of taxable real property as defined by Wisconsin Statutes – residential, commercial and manufacturing. DOR determines assessed values for manufacturing properties. The City Assessor determines assessed values for commercial and residential properties.

Milwaukee’s City Assessor values each individual property in the City of Milwaukee in an effort to fairly allocate local property taxes among taxable real estate parcels. Each year, the City Assessor revalues more than 153,000 real estate parcels in the City (approximately 139,200 residential properties and 14,000 commercial properties) to keep pace with changes in the market and to assure that property taxes are distributed fairly and uniformly. The purpose of assessed value is to insure the owner of each taxable property in the City pays his/her fair share of property taxes. This audit only examined commercial property assessments.

The City Assessor uses the Income Approach to value commercial properties because rental income typically drives commercial real estate values. The assessment values

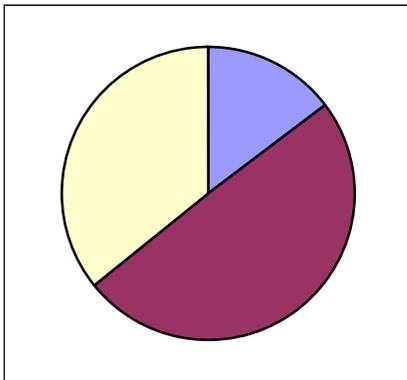
generated by this approach reflect the rental income that a specific commercial property is capable of generating. The City Assessor also uses recent commercial property sales to further refine the commercial property assessments. To clarify that the Income Approach is based on rental income, this audit uses the phrase “Rental Income Approach” rather than the phrase “Income Approach” that assessors use.

Historically, the City Assessor has used three categories of commercial property to report assessed values – *Special Mercantile*, *Local Mercantile*, and *Commercial Apartments*. These commercial property categories are historic classifications from previous assessment practices. The City Assessor uses these three types only to classify and report commercial property valuations, not to calculate assessed values.

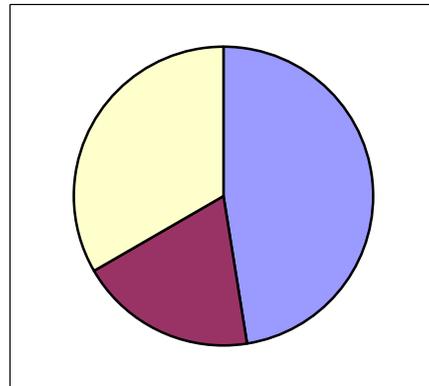
As of January 1, 2008, there were a total of 14,043 commercial real estate parcels in the City of Milwaukee with total assessed real estate value of \$9.59 billion. The average assessed value of a commercial property was \$682,460. However, as the charts and discussion below indicate, the average assessed values for the three types of commercial real estate vary substantially.

Chart 1: Number and Value of Commercial Properties

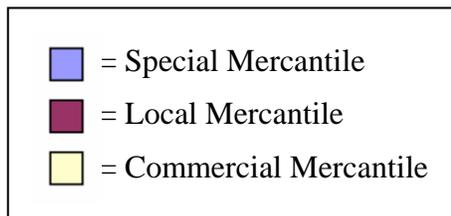
Number of Total Commercial Properties



Value of Total Commercial Properties



Pie Chart Key



The *Special Mercantile* type of commercial property had a total property value of \$4.51 billion and 2,081 real estate parcels as of January 1, 2008. This represents about 47 percent of the total assessed value of commercial property in the City and 15 percent of the number of commercial parcels. The average value of a *Special Mercantile* parcel is \$2.17 million. The classification of *Special Mercantile* properties is based on business function and business or building size. These properties are assessed citywide rather than at the neighborhood level. Examples include hotels, motels, funeral homes, fast food franchises, office buildings, and shopping centers.

The *Local Mercantile* type had a total property value of \$2.04 billion and 6,925 real estate parcels as of January 1, 2008. This represents about 21 percent of the total assessed value of commercial property in the City and 49 percent of the number of commercial real estate parcels. The average value of a *Local Mercantile* parcel is \$295,000. *Local Mercantile* properties are small commercial properties throughout the City with values that are strongly influenced by the property's neighborhood location. Examples include store front properties, neighborhood restaurants, and taverns.

The *Commercial Apartments* type had a total property value of \$3.03 billion and 5,041 real estate parcels as of January 1, 2008. This represents about 32 percent of the total assessed value of commercial property in the City and 36 percent of the number of commercial real estate parcels. The average value of a *Commercial Apartment* property is \$601,000. *Commercial Apartments* include all apartment buildings with four or more units.

Real estate property taxes for the next year are allocated based on assessed values as of the previous January 1. For example, the November 2009 property tax levy is due January 31, 2010 and is based on January 1, 2009 assessed values.

Property owners have the right to appeal the assessed value of their property to the Board of Assessors, the Board of Review, and the Circuit Court. Some appeals continue to the Court of Appeals and ultimately can go to the Supreme Court. Appeal deadlines, rights and responsibilities are discussed in Appendices 2 and 3.

C. State Equalized Value

Equalized value is “the estimated value of all taxable property in each taxation district, by class” (*Guide for Property Owners*, WI 2008). The Wisconsin Department of Revenue (DOR) determines an equalized value for each of eight classes of real property for more than 1,800 local governments in the State of Wisconsin. The City of Milwaukee has only three of these property classes – residential, commercial and manufacturing. The purposes of equalized value are to provide equity and uniformity among Wisconsin municipalities and counties, and to ensure that the local tax burden is fairly distributed across local Wisconsin governments.

Equalized value is the State’s estimation of fair market value of a class as a whole, regardless of property type or location. Wisconsin Statutes state that equalized value represents the market value or most probable selling price for all taxable property in the entire state. In the City of Milwaukee DOR determines equalized values for the residential, commercial and manufacturing properties. Fair market value and estimated fair market value are discussed in Appendix 5.

Equalized value is used to distribute State shared revenues and to apportion local tax levies such as county and technical college levies among municipalities. The local assessor, on the other hand, assesses each property to make sure that each individual property owner within the local government pays his/her fair share of property taxes.

In the early 1980's, the Wisconsin legislature passed a law that required the estimated fair market value to be included on all property tax bills. This estimated fair market value is based on the equalized value that DOR calculates. As a "truth in taxation" measure, the legislature thought it was important for property owners to have a relative measure of their assessment.

Under truth in taxation, local governments now are required to assess within 10 percent of equalized value once every 4 years, that is, between 90 percent and 110 percent. State law allows the 10 percent leeway both because appraisal is not an exact science and because DOR uses different appraisal methods to calculate equalized value than local governments use to calculate assessed values for individual properties.

D. Stratification

Stratification is the process of grouping similar properties together to analyze market changes to property value. Identifying key attributes and their contribution to value are essential to a fair assessment process. According to the *Wisconsin Property Assessment Manual*, assessors should divide properties into groups with similar attributes to facilitate comparison for valuation purposes.

Both DOR and the City Assessor use stratification to estimate property values, but they stratify in different ways. *DOR stratifies property in the City of Milwaukee into three statutory classes – commercial, residential and manufacturing.* DOR uses sales to calculate an economic adjustment and equalized value for each class. The equalized values of each class are added together to determine the equalized value of all the taxable real estate in the City. The process used by DOR is consistent with the following statement from *Property Appraisal and Assessment Administration (PAAA)*, an assessment manual published by International Association of Assessing Officers (Chicago, IL, 1990, page 517), “Equalization agencies [such as DOR] usually stratify properties by jurisdiction and classification.”

In calculating equalized value for Milwaukee, DOR analyzes an entire class of property within a municipality, but does not analyze individual properties within each class. As a result of this macro-view of property values, DOR does not consider attributes of individual properties, property inspections, adjustments for neighborhoods within the municipality, or improvements to individual properties.

According to *PAAA* [pages 518 and 542], the process used by DOR provides a reasonably accurate estimate of value for an *entire property class*. While the estimated fair market value of an individual property as reported on the tax bill (which is based on equalized value) may not accurately reflect market value, the value that DOR calculates for a class as a whole is close to 100 percent because over-appraisals are balanced by under-appraisals. However, the estimated fair market value that is listed on a property tax bill presumes equalized value accurately reflects market value for individual properties. *PAAA* states that perhaps the most frequent and serious obstacle to effectively calculating the value of a large class of property such as the equalized value calculated by DOR is the scarcity of sales data for certain types of property, particularly commercial properties.

PAAA also states that insufficient sales or over-representation of sales from one type of property within a class or one locale can distort results.

In contrast to DOR, the City Assessor uses a wide array of property characteristics to stratify commercial property, including age, size, use, building type, neighborhood, and location. The value of any individual commercial property within the class generally moves independently of the value of the total class. Recognizing this, the City Assessor has 113 unique commercial building types, 129 city neighborhoods for commercial property, and a wide array of property sizes, uses, and locations. Unlike DOR, which uses property sales to determine changes in economic value for an entire class of property, the City Assessor reviews property sales to identify key attributes that are important to buyers and sellers and to verify the accuracy of individual property values.

III. Audit Conclusions and Recommendations

A. Summary Conclusions

The audit found that in the conduct of its commercial property assessments, the City Assessor's Office is in compliance with both professional standards and statutory requirements. The City Assessor's staff collects the necessary information, analyzes and verifies sales and correctly applies professional valuation methods, consistent with current laws and rules. **Procedures used by the City Assessor yield dependable and high quality commercial property assessments.**

State Statutes require that local assessed values be within 10 percent of estimated market (equalized) value at least once every four years. **The audit found that assessed values for commercial property in the City of Milwaukee exceed State standards, and have done so since these standards were introduced.**

Audit staff evaluated the processes used to assess commercial property located within Tax Incremental Districts (TID) and found them consistent with the processes used for other commercial properties within the City. In spite of this consistent process, the audit found that owners of TID commercial properties appear to be more likely to appeal the assessed value of their property to the Board of Assessors (BOA) than owners of non-TID commercial properties (14 percent of TID properties

were appealed versus 8 percent of non-TID properties). In contrast, property owners in TIDs are less likely to bring a BOA decision to the Board of Review (8 percent of TID BOA decisions filed appeals with the BOR, compared with 19 percent of non-TID BOA decisions). The audit staff reviewed changes to value made by both the BOA and BOR, and concluded that **BOA and BOR decisions regarding TID commercial properties appear to be consistent with decisions regarding non-TID commercial properties.**

The audit found that the City Assessor uses a variety of record formats and computer applications to produce assessments that meet Wisconsin statutory requirements. While not all of the necessary legacy data is available through the assessment software, it is available in other formats, including paper files and other City software systems. **The audit recommends that the Assessor's Office evaluate the costs and benefits of obtaining and implementing software that would calculate the three approaches to assessed value that Wisconsin Statutes identify. The audit further recommends they continue to improve the integration and record-keeping capabilities of the assessment software.** Improving the integration of the assessment software with the assessment process would increase staff efficiency, reduce data entry errors, and eliminate redundancy.

The audit verified that DOR uses property sales to estimate market changes to equalized value. However, during the period audited, commercial property sales in the City of Milwaukee were dominated by apartment sales, but the DOR process did not consider or adjust for statistical differences within the class of commercial property. Consequently, during the period audited **DOR sales based estimates of market value change applied to the entire commercial property class in the City of Milwaukee were skewed by commercial apartment sales.**

The audit concludes that because the property values calculated by DOR and the City Assessor have different purposes and use different methods, it is unlikely the two figures would be identical. Given the demonstrated accuracy of commercial assessments performed by the Milwaukee City Assessor, **the audit recommends that DOR redirect its due process away from determining equalized value and instead focus on auditing the accuracy of the City Assessor's assessment figures. If commercial assessments are accurate, the audit further recommends that DOR accept the City's total assessed commercial values as the most accurate basis for establishing the**

equalized value of commercial property. The audit determined that these changes to equalized value would not materially affect City Revenues.

B. City Commercial Assessments

City Assessor Complies with Professional & State Regulatory Standards

The audit found the valuation methods used by the City Assessor follow professionally acceptable appraisal practice and comply with Wisconsin Constitutional provisions, Wisconsin Statute Sec. 70.32 (Fair Market Value Assessments), and the *Wisconsin Property Assessment Manual*. The City Assessor collects the necessary information, analyzes and verifies sales, understands and applies professional valuation methods, and stays current with changing laws and rules. **The audit concludes that the staff in the City Assessor's Office follow professional standards and practices, and the procedures used by the Assessor yield dependable and high quality commercial assessments.**

The audit also compared the assessment practices of selected cities with the City of Milwaukee. For example, the overall performance of assessments for commercial properties in the City of Milwaukee as measured by appraisal/assessment statistical tools was similar to Minneapolis and St. Paul, which are Midwest cities of comparable size.

Sales Ratio Study of City Commercial Assessments

The audit consultant conducted a *Sales Ratio* study to analyze the City's assessments of commercial property. This analysis calculated the Sales Ratio for each of 456 improved commercial properties that sold in 2007 by dividing the assessed value by the sales price for each sold property. Appraisal/assessment statistical tools were critical to evaluate the assessment performance of commercial properties as a whole, including the *Average Sales Ratio*, the *Variation of the Ratios*, and the *Price-Related Differential*. The Average Sales Ratio is calculated by adding the sales ratios together and dividing by the total number of ratios; it measures the tendency of assessments to be at, above or below market value. The Variation of the Ratios measures the uniformity of the assessed values within a group. Finally, the Price-Related Differential measures the uniformity between high and low value properties.

The analysis performed by the audit consultant found that the statistical measures for the City's commercial property assessment as a class fell within acceptable ranges, indicating the **procedures that the City Assessor uses yield dependable and high quality commercial assessments**. For example, the citywide Assessment-to-Sales Ratio in 2007 for commercial property was 91.3 percent, which was within the standard. Details of this analysis are in Appendix 1.

Commercial Property Valuations

By necessity, the City Assessor utilizes *Mass Appraisal* techniques and concepts to value its commercial property. *Mass Appraisal* is the systematic appraisal of groups of properties, as of a given date, using standardized procedures and statistical testing. According to the *Wisconsin Property Assessment Manual*, "*Mass appraisal* is the underlying principle that Wisconsin assessors should be using to value properties in their respective jurisdictions" (page 7-32, italics added).

The Manual goes on to say that "Wisconsin Assessors must also consider Section 70.32, Stats" (page 7-32). WI Statute §70.32 defines the *Assessment Hierarchy* that assessors should use to determine the market value of property. The *Assessment Hierarchy* states the best indication of the value of a property is the price paid for *that* property in a recent arm's-length transaction. The "next best" indicators of value are recent arm's length sale prices of properties that are reasonably comparable to the property being assessed. After sale of the subject or sales of reasonably comparable properties, the assessor may consider all other factors that, according to professionally acceptable appraisal practices, affect the value of the property, such as a cost or an income approach to value.

The City Assessor uses the *Rental Income Approach* (described on page 3 of this report) to calculate assessed values for the City's commercial property. Rental income typically drives commercial property values, and rental income varies depending on the use of the property, such as gas stations, local restaurants, taverns, super markets, fast food chains, hotels, office buildings, apartments, and shopping centers. In contrast, residential properties are more homogeneous because each residential property is used as a domicile. **The Rental Income Approach as applied by the City Assessor's Office to assess commercial property complies with Wisconsin statutory requirements and is consistent with generally accepted professional assessment practices.**

The audit consultant determined that the City Assessor uses several generally accepted methods of applying the Rental Income Approach. Two methods the City Assessor most often uses are (1) *Gross Income Multiplier*, which is usually used for smaller apartment type structures and local commercial property, and (2) *Direct Capitalization*, which is usually used for all other commercial property and larger apartment property. The City Assessor then uses recent sales to fine tune the mass appraisal income approaches to value. According to the audit consultant, these approaches were appropriately applied by the City Assessor.

The audit also found that the City Assessor often uses all three appraisal approaches when responding to assessment appeals – the Rental Income, Cost, and Sales Comparison Approaches. While Cost and Sales Comparison approaches are prepared for appeals, these alternative approaches to value are not calculated by the assessment software.

Preparing for the appeal process is very time-consuming because assessors cannot use the existing assessment software to calculate the cost and sales comparison approaches that are required for appeals. The existing commercial assessment software is only able to calculate assessments based on the Rental Income Approach; it is not able to incorporate or utilize sales and cost data to calculate cost or sales assessment values.

Recommendation 1: The City Assessor evaluate the costs and benefits of obtaining and implementing assessment software that would incorporate the use of the cost and sales approaches to assessment as well as the rental income approach.

The audit recommends that the City Assessor evaluate options that are available to update the assessment software to incorporate and implement each of the three recommended appraisal approaches to commercial property valuation, namely, the Rental Income Approach, Cost Approach, and Sales Comparison Approach. The audit recommends that this assessment document the costs and benefits of acquiring and installing software options that would calculate the three assessment approaches.

The audit consultant indicated that software is available that incorporates sales and cost data as well as data for the Rental Income model. New software would then calculate all three approaches to value, which cannot be done with the current software. New assessment software would reduce the effort necessary for an appeal

because this information would already be captured in the software. It would automatically generate the three approaches to value that are required when responding to appeals and would produce appeal information more efficiently than the current manual system.

Assessment Records and the Assessment Software

The automated and manual assessment records maintained in the City Assessor's Office meet Wisconsin statutory requirements. A variety of formats (e.g. electronic and paper files) and automated computer systems (e.g. the City Assessor's assessment software and the City's Pictometry system) provide staff in the Assessor's Office with access to the legacy data they need to calculate accurate assessments. The City Assessor is progressing toward a fully integrated system, but not all of the necessary legacy data is available through the assessment software.

Paper Records and Narratives – The audit found in some cases, alternative approaches to property value that were prepared by the City Assessor were captured on paper. While the assessment software indicates these alternative approaches to value are available, these paper records were not incorporated into the assessment software.

Pictometry System – The audit found the City's automated mapping system is not linked to parcel-level data within the assessment software. To access the City's automated mapping system, the City Assessor must invoke a separate program (the Pictometry System) and then switch between software system windows to compare data.

Building Sketches – Sketches are top-view diagrams showing the number of stories and the spatial relationships of buildings. Often, other data are also shown on a sketch that give an assessor additional information upon which to base a judgment. While the audit found many paper files contained sketches, there were no sketches in the assessment software. Further, some paper sketches were found to be old and fragile.

Supervisory Review and Approval – The audit found that supervisors discuss property values with the assessors before finalization. However, these supervisory reviews were not documented in the assessment software.

Changes to Property Records – The audit found the assessment software does not include documentation on how changes to property records are made (when and by whom changes were made, what changes were made, the original information). While there is an effective review process that compares current and prior year assessed values for each property, these changes are not documented in the assessment software.

Recommendation 2: Consider integrating other assessment tools and documentation within the Assessor’s Office assessment software.

The audit recommends that the City Assessor integrate the assessment software with other assessment tools. While it is not necessary for compliance with Wisconsin assessment requirements, it would be helpful to have building sketches, paper records, and other automated systems available through the assessment software. Improving the integration of the assessment software with the assessment process would increase staff efficiency, reduce data entry errors, and eliminate redundancy.

The audit recommends that the City Assessor consider integrating the following functions into the software:

1. The Pictometry or mapping system should be accessible from within the parcel record in the assessment software.
2. Paper records showing the approaches to value should be scanned, incorporated, and referenced in the assessment software.
3. Narrative appraisals, such as for appeals, should be digitized and linked within the assessment software.
4. Building sketches should be completed for every commercial parcel, digitized, and made part of the automated record in the assessment software.
5. Supervisory reviews and approvals should be documented in the assessment software.
6. Changes made to property records should be documented in the assessment software, including who made each change, when the change was made, the changed and original values, who approved the change, and when it was approved.

Commercial Assessments in Tax Incremental Districts

The audit found the assessment process for commercial properties within Tax Incremental Districts (TIDs) is consistent with other commercial properties within

the City. Assessment histories for commercial property were similar for both TID and non-TID properties, and results of Board of Assessors (BOA) and Board of Review (BOR) commercial property appeals to 2008 assessed values were similar for TID and non-TID properties.

The audit staff reviewed annual assessed values from 2001 through 2008 for 30 sample properties in TIDs, with 10 properties from each of the three commercial types (*Special Mercantile, Local Mercantile and Commercial Apartments*). The audit also reviewed assessment files to compare the assessment process applied to the sample TID properties with the assessment process applied to a sample of non-TID properties. **The audit found no differences between TID and non-TID assessment practices.**

BOA Decisions – Commercial Property Appeals

Chart 2 – TID Appeals

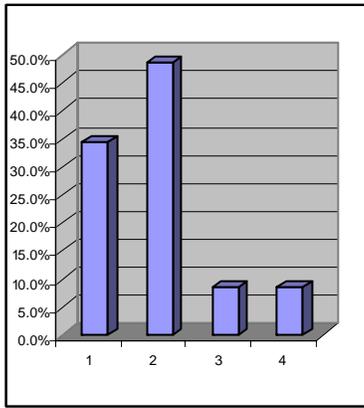
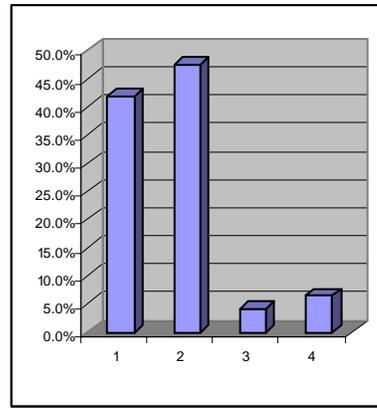


Chart 3 – Non-TID Appeals



Key to Charts 2 & 3 – BOA Decisions – Commercial Property Appeals

	<u>TID Properties</u>		<u>Non-TID Properties</u>	
	<u>#</u>	<u>Percent</u>	<u>#</u>	<u>Percent</u>
1 BOA Did Not Change Property Value	44	34%	449	42%
2 BOA Decreased Property Value	62	48%	509	48%
3 BOA Increased Property Value	11	9%	45	4%
4 BOA Correction/Other	11	9%	69	6%
Column Totals	128	100%	1072	100%

The audit staff also reviewed the appeal decisions made by both BOA and BOR regarding TID and non-TID properties. Of the 14,047 commercial properties in the City of Milwaukee on January 1, 2008, 916 were TID commercial properties. Of the total TID commercial properties, 14 percent filed appeals with BOA. Of the total 13,131 non-

TID commercial properties, 8 percent filed appeals with BOA. **Owners of TID properties appear to be more likely to file BOA appeals than owners of non-TID properties.**

As Charts 2 and 3 on the previous page indicate, of the 128 TID appeals heard by the BOA, approximately 9 percent were increased in value, 34 percent were not changed, 9 percent were corrected, and 48 percent were reduced in value. Of the 1,072 non-TID properties that were appealed, approximately 4 percent were increased in value, 42 percent were not changed, 6 percent were corrected, and 48 percent were reduced in value. **Nothing in these results would indicate a material difference in the BOA appeals process for TID versus non-TID appeals.**

Of the TID properties that filed appeals with the BOA, approximately 14 percent went on to file appeals with the BOR (18 TID appeals filed with BOR). Of the non-TID properties that filed BOA appeals, approximately 24 percent filed appeals with the BOR (255 appeals filed with BOR). While the BOA receives a greater percentage of appeals from TID property owners than from non-TID property owners, at the next level of appeal, the BOR hears a slightly smaller percentage of appeals from TID properties than from non-TID properties. Approximately 12 percent of TID properties and 30 percent of non-TID properties received no change in assessed value, and approximately 13 percent of TID properties and 3 percent of non-TID properties received increases in assessed value from the BOR. **BOR appeal decisions also appear to not favor TID properties.**

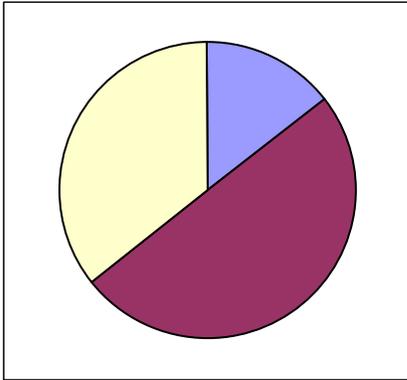
C. City Assessments Versus State Equalized Values

Analysis of Commercial Property Assessments by City's Reporting Types

Chart 4 on the next page identifies the number and value of commercial properties in each of the three property types that the City Assessor uses to report commercial property values – *Special Mercantile*, *Local Mercantile*, and *Commercial Apartments*. The chart shows that *Special Mercantile* property is only 15 percent of the *number* of commercial properties but almost 50 percent of the *assessed value* of commercial properties. *Local Mercantile* is 50 percent of the *number* of properties but only 20 percent of commercial *assessed value*. *Commercial Apartments* are 35 and 30 percent of the *number* and *value* of commercial properties.

Chart 4: Number and Value of Total Commercial Properties

Number of Total Commercial Properties



Value of Total Commercial Properties

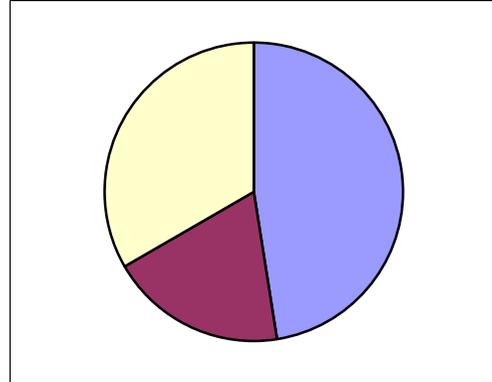
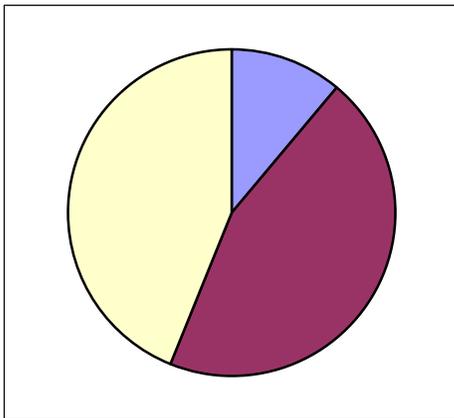


Chart 5: Number and Value of Sales of Commercial Property

Number of Sales



Value of Sales

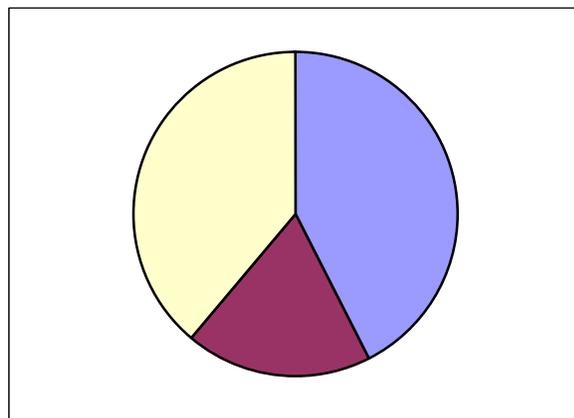


Chart Key

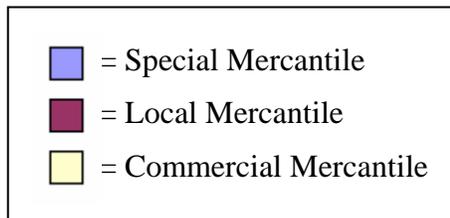


Chart 5 above shows the number and value of commercial property sales for each property type. (The actual number and value of total sales for each property type are presented in Table 1 on page 20, with the discussion of assessment analyses performed

by the audit consultant.) The *Special Mercantile* type of commercial property was only 11 percent of the properties sold in 2007, but it represented 43 percent of the total sales value of commercial property. The average sales price of a *Special Mercantile* property that sold was \$3 million.

The *Local Mercantile* type of property was 45 percent of the City's commercial property sales in 2007, but it represented only 18 percent of the total sales value. The average *Local Mercantile* property sold for \$323,000, a much lower price than *Special* properties or *Apartments*.

The *Commercial Apartments* type was 44 percent of the number of commercial property sales in 2007, and 39 percent of the total sales value. The average sales price of a *Commercial Apartment* property in 2007 was \$699,000.

A greater percentage of the number and total value of *Commercial Apartments* sold in 2007 than either *Special* or *Local Mercantile* properties. Approximately 3.5 percent of the total number and 4 percent of the total value of *Commercial Apartments* sold in 2007. Approximately 2 percent of the total number and 3 percent of the total value of *Special* properties sold in 2007. Approximately 2.5 percent of the total number and slightly less than 3 percent of the total value of *Local Mercantile* properties sold in 2007. The above analysis of the City's three commercial property reporting types indicate that commercial property sales were disproportionately weighted by *Commercial Apartment* sales during the period audited.

The three major groupings of commercial property that the City Assessor uses to report commercial property, *Special Mercantile*, *Local Mercantile*, and *Commercial Apartments*, are historic traditions from previous assessment practices; they are not used to analyze property or produce assessments. The audit indicated that continued reporting by these three types confuses the reader and may limit valuation consensus with DOR (discussed on page 22, in Recommendation 4).

Recommendation 3: Replace historic Special Mercantile, Local Mercantile and Commercial Apartment types with more refined groups.

The audit recommends that the City Assessor replace the three commercial types of property with more comprehensive and useful categories that better reflect assessment

values. Property categories that reflect actual assessment practice would help readers better understand Assessment Reports, and they would make the report results more meaningful.

State Equalized Value

While the local assessor determines the value of *individual* properties *within* a municipality, DOR determines the full value of *entire* municipalities. An important distinction is that municipal assessors use the sales, cost and income approaches to value, while DOR uses sales ratio studies. The reason that equalization is necessary is because levels of assessment of the more than 1,800 municipalities in Wisconsin vary as a percent of full value. As discussed in the background section of this report, the purpose of the State's equalization function is to estimate the 100 percent, or full value, of each of these municipalities. These full value estimates level the playing field for the distribution of shared revenues and state aids.

Differing statutory requirements mean that DOR and local assessors use different methods. If assessed value and equalized value continue to be calculated using different methods, it is unlikely the two figures would ever be identical. That is one reason that State Statutes permit a 10 percent variance between the aggregate assessed value and equalized value for a class of property when estimating the accuracy of aggregated assessed values. **The City of Milwaukee has met the statutory requirement that assessed value be “within 10 percent of market [equalized] value at least once every 4 years” since the Statute (WI Statute §70.05) was passed in the 1980's.**

DOR calculates equalized value for the City's commercial and residential classes of property by adjusting the prior year's equalized value for changes made in the prior year by the local assessor in accordance with WI Statute §70.57, which identifies how DOR is to update equalized value. This adjusted value is then further modified by an economic value adjustment based on prior year sales, by net new construction, and by a modest “other” adjustments. DOR calculates assessed values for manufacturing properties and uses the aggregate assessed value as full equalized value for the manufacturing class.

The audit consultant stratified the sales data used by DOR to calculate the 2008 economic value adjustment into the City's three reporting types of commercial property (*Special Mercantile, Local Mercantile* and *Commercial Apartments*). As previously noted, the

City Assessor uses these three property types to report assessment results but not to determine individual commercial property assessments. The audit consultant then recalculated the Assessment-to-Sales Ratio for the total commercial class and for each reporting type of commercial property.

The results are provided in Table 1 below, “Assessment-to-Sales Ratio for Each Commercial Type.” The table identifies the number of sales, percent of total sales, total assessed value, total sales price, and the Assessment-to-Sales Ratio for the class of commercial property and for each of the three commercial types – *Special Mercantile*, *Local Mercantile*, and *Commercial Apartments*.

The Assessment-to-Sales Ratio measures how close assessments are to market value. The Assessment-to-Sales Ratio (last column of the table) for the total class of commercial property was approximately 91 percent, and it was 92 percent and 97 percent respectively for the *Special Mercantile* and *Commercial Apartment* types. The ratio for the *Local Mercantile* type was significantly lower at 76 percent. These ratios indicate that within the commercial class of property, *Special Mercantile* and *Commercial Apartment* types were within the ± 10 percent guideline required by Wisconsin Statutes, but, at only 76 percent, the assessment-to-sales ratio for *Local Mercantile* did not meet this guideline.

Table 1: Assessment-to-Sales Ratio for Each Commercial Type

Type	Number of Sales	Percent Of Total Sales	Total Assessed Value	Total Sales Price	Assessment to Sales Ratio
Local	179	45.09%	\$44,166,800	\$57,821,509	76.38%
Special	44	11.08%	\$123,005,600	\$133,046,200	92.45%
Apartments	174	43.83%	\$118,171,900	\$121,647,990	97.14%
<i>Totals</i>	<i>397</i>	<i>100.00%</i>	<i>\$285,344,300.00</i>	<i>\$312,515,699.00</i>	<i>91.31%</i>

As discussed, at 92 percent, the Assessment-to-Sales Ratio for *Special Mercantile* property is within the ± 10 percent guideline. However, only 44 *Special Mercantile* properties or 2 percent of all properties of this type sold in 2007. While *Special Mercantile* properties sold at high prices (an average of \$3 million per sale), with fewer sales, calculations of the Assessment-to-Sales Ratio for *Special Mercantile* properties

would be more affected by outlier sales (sales prices that are significantly higher or lower than the average) than *Commercial Apartments* would be. Thus, the *Special Mercantile* contribution to the Assessment-to-Sales Ratio for the commercial class could vary significantly from year to year.

At 97 percent, the assessment-to-sales ratio for *Commercial Apartments* indicates *Commercial Apartment* assessments are highly uniform and also are consistent with sales values. Approximately 3.5 percent of all commercial apartments sold in 2007, which is higher than the approximately 3 percent of sales of all commercial properties, and significantly higher than the 2 percent of sales of *Special Mercantile* properties, or 2.5 percent of sales of *Local Mercantile* properties.

In Table 2 below, “Commercial Assessment-to-Sales Ratio for Each Property Type,” the audit consultant recalculated the assessment-to-sales ratio using the three types that the City Assessor uses for reporting commercial property.

Table 2: Commercial Assessment-to-Sales Ratio for Each Property Type

Type Name	Type as % of Property Class Values	Assessment To Sales Ratio By Type	Contribution by Type
Local	19.35%	76.38%	14.78%
Special	47.38%	92.45%	43.80%
Apartments	33.27%	97.14%	32.32%
<i>Totals</i>	<i>100.00%</i>		<i>90.90%</i>

The audit consultant also measured variance and possible assessment bias in the commercial class and in each of the three commercial property types. **The measurements of variance and assessment bias in the Assessor’s Office commercial class as a whole and in its *Commercial Apartments* assessments were within acceptable ranges. However, the variance and measures of price related differentials for both the *Special* and *Local Mercantile* groups fell slightly outside acceptable ranges.** The audit consultant determined that the results for *Special* and *Local Mercantile* were caused by the extent of dissimilar properties within each type rather than by valuation weaknesses. For example, the *Special Mercantile* type includes hotels, nursing homes, theaters, super markets, service (gas) stations and car washes.

As the above analyses indicate, during the period audited the market for *Commercial Apartment* properties was more active than either *Special* or *Local Mercantile* properties. Sales of commercial property in the City of Milwaukee were dominated by *Commercial Apartment* sales. Consequently, **estimates of market changes based on unadjusted total commercial sales were skewed by the large portion of apartment sales and were not likely to yield accurate changes to commercial property market value.**

Recommendation 4: DOR should redirect its due process away from determining equalized value of commercial property and instead focus on auditing the accuracy of the City's commercial assessments. If commercial assessments are accurate, DOR should accept the City of Milwaukee's total assessed commercial values as equalized value.

The audit recommends that DOR redirect its statutorily required due process for commercial property valuation from determination to verification and validation of City of Milwaukee's procedures – an audit of assessment procedures – for such property in the City. Rather than determine equalized value for Milwaukee's commercial properties, the audit recommends that DOR verify that the standards and practices used for commercial assessments are of high quality and are professionally applied. DOR would then accept the City's aggregate assessed values of commercial property as equalized value, upon DOR's successful audit of procedure and documentation.

To provide due process and assure that City assessments remain high quality and professionally conducted, the audit suggests that DOR develop a methodology to audit the Milwaukee City Assessor's procedures, standards and practices. This methodology might include a checklist of data and/or items about the assessment process that DOR would require the City Assessor to provide.

Accepting the sum of the individual assessments as equalized values is not unprecedented as two statutory assessment regimes in Wisconsin – the County Assessment System and the State Assessment of Manufacturing Property – already allow acceptance of these aggregated or total assessments as estimated fair market value.

This would:

- Eliminate the variability between State equalized and City assessed values.
- Eliminate the potential confusion that results from the comparison of DOR estimate of fair market (equalized) value to the City's assessed value of a commercial property when both appear on the property tax bill.

D. Effect of Changes to Equalized Value on City Revenue

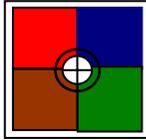
According to DOR, there are over 100 statutory uses of equalized values, including calculating the base value of Tax Incremental Districts (TID), allocating several State revenues to local governments, limiting increases to local budgeted expenditures (e.g. Expenditure Restraint Aid), and calculating allowable increases to local property tax levies. Equalized values also are used to distribute each county's property taxes among the municipalities in that county, to apportion public and vocational school taxes, and to distribute certain State aid.

Audit staff evaluated the following seven City revenue sources and statutory limits that include equalized value in the calculation:

1. Parking Fund payments in lieu of taxes (PILOT)
2. Water Services PILOT
3. State payments for municipal services
4. Expenditure Restraint Aid
5. Property tax levy limits
6. Total or aggregate value of property in each TID (calculated by DOR)
7. Total debt the State permits the City to carry (not more than 5 percent of equalized value)

The audit determined that changes to equalized value would not materially affect City Revenues. While changes to equalized value would have a small effect on these calculations, changes to the individual amounts and the total of all changes would be immaterial to both the City's revenues and the revenue limits defined by State Statutes.

Consultant's Final Report



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www.landretti.com Email: appraisal@landretti.com

August 25, 2009

W. Martin Morics, CPA
City Comptroller
City of Milwaukee
200 East Wells Street, Room 404
Milwaukee, WI 53202

Dear Mr. Morics:

Attached you will find the final report that complies with the audit contract to review the commercial assessments of the City of Milwaukee. The report summarizes the major findings, conclusions, and recommendations of each of the four individual sections of the contract. The individual sections contain detail explanations, computational analysis, and graphic presentations that support the conclusion in this document.

Thank you for the opportunity to work with the City on this project.

We look forward to discussing our recommendations with you.

Respectfully submitted,

G. Landretti

Greg Landretti, CAE SRPA
Partner, Landretti &
Company, LLC

Dominic Landretti

Dominic Landretti
Partner, Landretti &
Company, LLC

attachment

cc (via email): Craig Kammholz
James Michalski

Consultant's Final Report

AUDIT OF THE CITY OF MILWAUKEE COMMERCIAL PROPERTY ASSESSMENTS

FINAL REPORT

INTRODUCTION

The report summarizes the major findings, conclusions, and recommendations of each of the four individual sections of the contract. The individual sections contain detail explanations, computational analysis, and graphic presentations that support the conclusion in this document. The audit took place between June 2008 and January 2009. The audit followed the sections defined in the audit plan.

Section 1 analyzed the accuracy of commercial assessments by measuring the relationship between sales price and assessed value. The section studied the internal quality of assessments and determined if the assessments complied with regulatory standards.

Section 2 analyzed the degree to which the individual assessments complied with the Wisconsin Statutes and professionally acceptable standards and practices. This part of the analysis studied a sample of 30 commercial properties selected at random.

Section 3 documented the equalization methods used by the Wisconsin Department of Revenue for the City of Milwaukee and identified differences between State and City methodology.

Section 4 calculated and presented the differences in computations focusing on the effects of stratification, that is, the grouping of parcels by categories.

This document summarizes detailed reports which were written for each of the sections of the audit. Those reports are available as separate documents.

OVERALL CONCLUSION

Following our audit of the commercial assessments, we conclude that the City Assessor's Office follows Wisconsin Statutory Law and professionally accepted standards and practices. The Assessor collects the necessary information, carefully analyzes and verifies sales, understands and correctly applies professional valuation methods, stays current with changing laws and rules, and is progressing toward a fully integrated system. It is our opinion that these findings yield dependable and high quality assessments.

FINDINGS & CONCLUSIONS

Accuracy and Quality of Assessments

Procedures

The analytical basis of Section 1 was of a sale-ratio study of the City's commercial property. The audit considered 456 improved commercial sales that occurred during 2007. For each property, two values were collected: (a) the assessment and (b) the sale price. The assessed value is divided by the sale price to obtain each property's assessment/sale ratio. The entire sample of ratios is then analyzed statistically to evaluate assessment performance. The ratio study was

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applied to all commercial property as a single group and to each property type as defined by the City: (1) Local Mercantile, (2) Special Mercantile, and (3) Commercial Apartments.

Findings

The main statistics used in the analysis measure the average and the variation of the ratios. Averages close to 100% and low variation figures indicate better quality assessment. Further, to comply with State Statute, the overall average must be within 10% of 100%. The analysis showed that the averages for all commercial property within the City complied with that legal level.

While the measurements of variance of Commercial Apartments were within acceptable ranges, the variance for Local and Special Mercantile fell slightly outside acceptable ranges. The reason is likely due to the way that these properties are stratified rather to assessment practices per se.

Another test statistic—the Price-Related Differential—measures assessment bias such as if low-valued properties are overassessed. It was determined that there was no bias in the assessment of commercial property as a whole. However, the price-related differential for the specific groups of Local Mercantile and Special Mercantile indicated that high-value properties tend to be assessed lower than low-valued properties.

Currently, the Local Mercantile group contains 19 diverse uses. The Special Mercantile group contains 16 diverse uses. Grouping these uses so broadly may result in lower performance statistics. For example, if a group includes a number of different uses and if the properties in the group are city-wide, locational differences may result in poorer statistics. Therefore, separating these properties by geographic area may improve the assessment performance. In addition to proper stratification, it is important that there are enough sales in each group for analysis. For example, only 11 of the 129 neighborhoods had ten or more commercial sales. Two alternatives to mitigate this issue are to (a) use multi-year sales and/or (b) combine neighborhoods in a way to produce larger sample sizes for analysis.

Further, the data showed that the overall performance of assessment for the City of Milwaukee was similar to cities of comparable size such as Minneapolis and St. Paul.

Wisconsin Statutes and Professionally Acceptable Standards and Practices.

Valuation Methods

Overall, the valuation methods that are used by the City Assessor follow professionally acceptable appraisal practices and state statute. Most of the commercial property is valued using the income approach as rental income typically drives the commercial marketplace. We believe that this practice complies with the requirements of the statute and with professional practices and is evidence of credible process. Further, and most importantly, the audit shows that the City is compliant with Wisconsin Statutes and professional standards and practices.

Building Sketches

The records of 30 properties—both automated and paper—were reviewed during the audit. Although the automated files contained considerable information about each parcel, the system

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does not have building sketches, which are typically part of the assessment record. Sketches are top-view diagrams showing the number of stories and the spatial relationships of buildings. Often, other data is shown on the sketch which gives the appraisal additional information upon which to base a judgment. While a number of the paper files included sketches, many are old and fragile.

Data and Systems

The audit showed that in some cases, the valuation approaches were prepared on paper but not integrated with the automated system. The automated mapping system is not directly linked to parcel-level data within the automated assessment system. To access the land map, the assessor must invoke a separate program and then switch between windows to compare data

Equalized and Assessed Value

Wisconsin has a dual assessment system maintained by (a) the local assessor and (b) the Wisconsin Department of Revenue. The local assessor estimates the value of *individual properties* within a municipality whereas the State Department of Revenue estimates the value of the *entire municipality*. The local assessor is responsible for fairness between properties (such as different houses) and between classes of property (such as residential and commercial). The purpose of the local assessment system is to ensure that the property tax is distributed fairly among individual property owners *within* the municipality. However, for a variety of reasons, municipalities assess at levels other than 100% market value. Although this doesn't affect the distribution of taxes within a municipality, it does create inequities *between* municipalities for such things as county taxes and state aid payments. To address this problem, the State determines the full value of each municipality and refers to their estimate as "equalized value."

The Equalization Process

The equalization *process* is used to:

1. estimate the equalized value (full market value) of all of the property in a municipality
2. estimate the equalized value of each class of property within the municipality, such as residential or commercial
3. measure the level at which the municipal assessor is assessing property in relation to full value
4. determine the differences in value between the previous and the current year to estimate the economic change

As stated above, a main purpose of Equalization is to ensure that county taxes and state aid payments are distributed fairly among municipalities.

Equalization is done by the Wisconsin Department of Revenue Division of State and Local Finance and is authorized by statute. Because equalized value is an independent estimate, the figure may or may not agree with the total assessed value, despite the precision of the local assessor. Differences between equalized value and local assessed value are often disputed but seldom legally challenged.

Equalized and Assessed Value as Expressed on the Property Tax Bill

Although not directly related to the audit, an explanation of the figures on the property tax bill is illustrative of the differences between equalized and assessed value. In an effort to be more

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forthright about full value, the Wisconsin Legislature placed the "Estimated Fair Market Value" on the property tax bill in 1982. This figure is calculated by dividing a parcel's total assessed value by the average assessment ratio for the municipality as determined by the Department of Revenue. Although the intent was to provide a measure of comparison, the meaning of the "Estimated Fair Market Value" is both elusive and controversial. When the figure is higher than the assessment, it appears that the assessor is under-assessing and when the figure is lower, it appears that the assessor is over-assessing.

Stratification

Differences in stratification (grouping) are one of the reasons that the State full value estimate differs from the Local full value estimate (sum of assessments). Stratification is the process of grouping properties that have similar market characteristics such as use and size. The assessor stratifies properties into homogeneous groups to better understand the economic changes of each group. The economic changes are then applied back against the properties in each group. On the other hand, for determining equalized value, the State stratifies by class only—such as residential or commercial—and does not consider sub groupings. Certainly, one could argue that the more detailed the grouping, the more accurate the estimate of value.

For valuation purposes, the City Assessor currently stratifies commercial property by various attributes such as location, size, and use. However, they also report three major groupings of Local Mercantile property, Special Mercantile property, and Apartments. As defined by the City, *Local Mercantile* consists of smaller commercial property throughout the City where values are strongly determined by the property location. Examples include store front properties and taverns. Local mercantile property represents about 7% of the total assessed value of the City. *Special Mercantile* includes special property types whose function dictates the use of similar appraisal techniques. Examples include hotels, motels, funeral homes, fast food franchises, office buildings, shopping centers, service stations, and so on. Special Mercantile property represents about 16% of the total assessed value of the City. *Apartments* include all apartment buildings with four or more units. Apartments comprise about 10.5% of the total assessed value of the City.

It should be noted that these major groupings are an artifact from historic assessment practices. These strata do not show the whole picture in terms of appraiser practice. The continued reporting by these categories is detrimental to showing the true quality of assessment and continued reporting by these groupings may inhibit valuation consensus with the Wisconsin Department of Revenue

State versus City Practices

The *sales-ratio study* is a tool that is common to both the Department of Revenue and to the municipal assessor and is used to determine (a) the quality of assessment practices and (b) the annual change in municipal value. Again, the State is concerned about the *entire municipality* whereas the local assessor is concerned about *individual properties*. Nonetheless, from a purely theoretical perspective, if the State and Local ratio practices were identical, the total municipal value estimated by each would be close, if not identical. However, there are issues preventing convergence. First, the two entities may use different sales information based upon different validation criteria. Second, economic data may be applied to different base figures because of

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differences in stratification. In the latter case, the State applies economic changes to *entire classes* of property whereas the City applies economic changes to *individual properties*. These differences, inherent in the dual-assessment system, usually result in different State and Local municipal values. For example, for 2007, the State estimated the commercial value at \$10.18 billion whereas the Assessor's estimate was \$8.95 billion.

Differences in Computations between DOR and City Assessor

The major component for estimating annual market value used by both the State and the City Assessor is the *annual economic adjustment*. The annual economic adjustment represents the change (appreciation or depreciation) in the marketplace during the assessment year. Although both DOR and the City derive an economic adjustment from sales for the same period, the methods and the results differ.

In the case of DOR, the economic adjustment is the percent change between the aggregate ratio of the sales and the level of assessment. The adjustment figure is applied against the previous total equalized value base. In the case of the Assessor, economic adjustment is the percent change between the current year's assessed value and the new assessed value, calculated for each property. For the City Assessor, the overall economic adjustment for the City is the *sum* of the changes of the individual properties. For the State, the economic adjustment is calculated based upon the total or aggregate of all properties within each class.

Recall that the *dual system* produces two estimates of value: one for the municipality and one for the sum of the individual parcels. All things being equal, the figure for both would be the same.

RECOMMENDATIONS

Accuracy and Quality of Assessments

It is recommended that the City continues to consider alternative stratification for all commercial property. Alternative stratification should then be tested to determine which mix of properties yields the highest performance measures. This process is the basis of other recommendations for working with the State. It is recommended that unless the historic categories of local mercantile, special mercantile, and commercial apartments are necessary for reporting, they should be abandoned in favor of a more useful stratification regime.

Ratio studies should then be applied to more homogeneous groupings to determine accuracy and quality. Further, as a product of this more refined grouping, more emphasis can be placed on more precise economic adjustments.

Wisconsin Statutes and Professionally Acceptable Standards and Practices

Valuation Methods

Although applying the cost and sales comparison approach in addition to the income approach would be more comprehensive, it would be resource demanding and would require an updated computer assisted assessment system. Ideally, the perfect system would provide all three

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approaches and would use a market model to value each parcel. It should be noted that the assessor applies all three approaches when responding to assessment appeals. It is recommended that the City Assessor's office consider additional approaches to value within their automated system as these approaches relate to specific market conditions.

Building Sketches

It is recommended that digital building sketches be completed for every commercial parcel and then integrated with the automated record.

Data and Systems

It is first recommended that all valuation methods be automated. At a minimum, paper records showing the approaches to value be scanned, incorporated, and referenced in the automated assessment system. It is also recommended that when narrative appraisals are done, such as for appeals, they should be digitized and linked within the automated assessment system. Finally, it is recommended that all systems, such as mapping, permitting, transfer documents, and deeds be integrated seamlessly at the parcel level within the automated assessment system.

Equalized and Assessed Value

The discussion under findings describes how the equalization-based value and the assessed value on the tax bill create confusion. Recommending a change to the tax bill is beyond the scope of this review. However, this confusion, caused by differences between equalized and assessed value can be eliminated. As an initial effort to create a single-value process, it is recommended that the State and the City reconcile Equalized and Assessed Value.

Market Value Assessments and Economic Changes

It is recommended that the City work with DOR and agree to a set of "review standards." The City should annually report their performance to DOR who would audit the practices. If, upon audit, the practices are found acceptable, DOR would accept the City aggregate assessment as equalized value. This recommendation follows the model established by both the county assessment system and the State Assessment of Manufacturing Property, both of which are presumed to be at full value by DOR.

Assessment Calendar

JANUARY 1st is the statutory “as-of” date that assessed values are set. The tax levy rate, which is applied to that assessment, is set the following November by Common Council. The property tax bill is payable by January 31st of the following year. For example, property tax bills for the City’s 2009 budget are based on the tax rate established by Common Council in November 2008, were mailed in December 2008, and were payable by January 31, 2009. These tax bills are based on the assessed property values as of January 1, 2008.

JANUARY 1st or when tax incremental district (TID) is created – The Wisconsin Department of Revenue (DOR) determines the base value of a TID after the TID is created by the City. If the City changes the base of the TID by amendments to the original TID plan, DOR re-determines the new base value of a TID, and provides that revised base value to the City by January 1st. Each year, DOR provides the City both the current equalized value and the base equalized value of properties in each TID.

MAY – At least 15 days before the 2nd Monday in May, the Commissioner of Assessments mails a written Notice of Changed Assessment to property owners. The notice contains the amount of the changed assessment and information about when the Board of Assessors will meet (meeting times, dates, and locations).

MAY – On the 2nd Monday in May, the Board of Assessors (BOA) holds its first meeting of the year. The BOA finishes its work by the 2nd Monday in October, when the assessment rolls as corrected by the BOA is submitted to the Board of Review (BOR). (Also see “On or before 2ndMonday in October” below and “Property Assessment Appeals” in Appendix 3.)

MAY – After the 2nd Monday in May, property owners must be notified in writing by first class mail if any changes are made to the assessed value of their property.

MAY – OPEN BOOK – For 3 weeks before the 3rd Monday in May, the Assessor’s Office conducts its “Open Book,” during which the assessment rolls are open for examination by property owners. At least 15 days before the first day of “Open Book,” the Commissioner of Assessments publishes a notice that identifies “Open Book” days, times, and locations.

Assessment Calendar

MAY – On or before the 3rd Monday in May, property owners must file in writing with the Commissioner of Assessments all objections to the assessed amount or valuation of real or personal property. Objections received after the 3rd Monday in May will not be accepted or heard, unless the assessed values first are reviewed and changed by BOA and/or BOR. Neither BOA nor BOR may waive the requirement that objections be filed in writing by the 3rd Monday in May.

MAY – The 3rd Monday in May is the statutory deadline for property owners to appeal their assessment.

MAY THRU OCTOBER – Property Owner objections to decisions made by BOA – In order to bring a case before the Board of Review (BOR), a property owner must file their written objection to BOA decisions with the Commissioner of Assessments within 15 days from the date the BOA notice of determination is issued. BOA issues notices of determination throughout the time that it meets, from May to October. Property owners are deemed to have accepted the assessment determination unless the person notifies the Commissioner of Assessments within 15 days of his or her desire to bring the case before BOR. BOR must give the objecting property owner, his or her representative, and the City Attorney at least 2 days notice of the time fixed for BOR hearing. (Also see “Property Assessment Appeals” in Appendix 3.)

MAY OR JUNE – 30 Days beginning the 2nd Monday in May – The first annual meeting of BOR must be held at any time during the 30-day period beginning on the 2nd Monday of May. (Also see “Property Assessment Appeals” in Appendix 3.)

MAY – At least 15 days before the first meeting of BOR, the Clerk of BOR publishes a notice of the times and places BOR will meet.

JUNE THRU DECEMBER – Within 90 days after receiving notice of the BOR decision/determination, a property owner must begin any action to appeal BOR through the Circuit Court.

JUNE – On or before the 2nd Monday in June, the Commissioner of Assessments sends the “Final Assessor’s Report” to the Wisconsin Department of Revenue (DOR).

Assessment Calendar

DOR uses the assessment information from this report to calculate equalized value, which is released by the State on August 15th. The assessment information contained in the “Final Assessor’s Report” does not include changes or corrections made by BOA or BOR between June and November.

AUGUST – On August 15th, DOR notifies the City of the equalized value of each class of property in the City (commercial, manufacturing and residential). (Also see Appendix 4, “City and State Calculation of Property Values.”)

OCTOBER – On or before October 1st – If the City refunds at least \$500 for any one year for a single property and if the total refunds by the City (each refund included in the total must be at least \$500) for the same year are at least \$5,000, the City may submit to DOR a listing of the property taxes that were refunded, rescinded or corrected. If this report is submitted, DOR has until November 15th to determine whether the reported tax reductions materially change equalized values for the City.

OCTOBER – On or before the 2nd Monday in October, the Commissioner of Assessments prepares the assessment rolls as corrected by BOA and submits the final corrected assessment rolls to BOR. The Commissioner attaches an affidavit to the submitted assessment rolls that states these properties have been justly and equitable assessed.

OCTOBER 15th – Appeal of equalized values due – The City may appeal the equalized values that are calculated by DOR by filing a written appeal with the Wisconsin Tax Appeals Commission on or before October 15th. The appeal must be authorized by the Common Council, and it must follow the format described in WI Statutes §70.64.

NOVEMBER – On or before November 1st, Payment of claim for refund – If the assessed value of the property in question is reduced, the property owner may file a claim for a refund of taxes that results from the reduction in value. If the property owner files a valid claim for refund on or before November 1st, Wisconsin Statutes require the City to pay the claim to the taxpayer by January 31st of the following year. For claims that property owners file after November 1st, the City has until the second January 31st after the claim is filed to pay.

Assessment Calendar

For example, a property owner who files a valid claim for refund of taxes on October 25, 2009 will be paid the refund no later than January 31, 2010. If that same property owner files the claim 10 days later, on November 4, 2009 the claim must be paid by January 31, 2011.

NOVEMBER – On or before November 1st, DOR sends equalized value reports to the City and notifies the Commissioner of Assessments if assessed values are not within ± 10 percent of equalized value.

NOVEMBER – On or before the 1st Monday in November, BOR delivers the assessment roll to the Commissioner of Assessments, as examined and corrected by BOR.

DECEMBER – On or before the 3rd Monday in December, the Commissioner of Assessments delivers the tax roll to the Treasurer of the City of Milwaukee, after reexamining and perfecting the corrected assessment roll that BOR delivered in November.

NOTE – The above Assessment Calendar applies to both commercial and residential assessments.

Property Assessment Appeals

A. PROPERTY OWNER APPEAL RIGHTS AND RESPONSIBILITIES

- Appeal rights are the same for both commercial and residential property.
- A property owner may only object to the total assessed value. The owner may not object separately to either the assessed value of the land or to the assessed value of improvements.
- The property owner must supply all of the information about income and expenses that the Assessor requests if the objection is based on an income valuation. If the information requested by the Assessor is not supplied, the taxpayer may not appear before the Board of Review (BOR), testify to BOR, or object to a valuation.
- A property owner who does not permit the Assessor to view the taxable property will not be permitted to appear before BOR, to testify to BOR, or to contest the amount of any property assessment.
- In order to question the assessed value of the property, a property owner must:
 - timely file a written objection with the Commissioner of Assessments,
 - in good faith present evidence that supports the objections to the Board of Assessors (BOA) and BOR, and
 - make full disclosure under oath before BOA or BOR of all of that person's property liable to assessment in the City.
- A property owner who objects to the assessed value of his or her property must file a written objection with the Commissioner of Assessments on or before the 3rd Monday in May. Any objections received after the 3rd Monday will not be accepted or heard. An objection that is timely filed will first be investigated by BOA.
- A property owner who objects to the findings by BOA must file a written objection and request to be heard by BOR with the Commissioner of Assessments within 15 days from the date BOA issues its Notice of Determination. Property owners who do not file an objection within 15 days from the Notice of Determination are deemed to have accepted the Notice of Determination that BOA provides.

Property Assessment Appeals

- A property owner who is scheduled to appear before BOR may not contact or provide information to a member of BOR about his or her objection except at a session of BOR.
- When appearing before BOR, the property owner or representative is required to specify in writing the property owner's estimate of the property value. Any information that was used to arrive at the estimate must also be provided.
- A property owner who objects to the findings of BOR may appeal the decision to the Circuit Court. The property owner should consult with an attorney for the Circuit Court filing to ensure proper legal procedures are followed. Some property owners filed claims for excessive taxation with the Circuit Court for 2007 assessments in 2008.

B. BOARD OF ASSESSORS (BOA)

Assessment objections are first reviewed by the Board of Assessors, comprised of six managers in the Office of the Assessor, including the Commissioner of Assessments (chair), the Chief Assessor, supervising assessors, and supervising assessor assistants.

BOA Responsibilities

- The first BOA meeting is held the 2nd Monday of May.
- BOA verifies that all assessments are uniform.
- BOA also makes all necessary corrections and any other changes that are necessary to arrive at true property values within the City.
- BOA reviews all taxpayer (property owner) objections to the amount of assessed value of their real or personal property. As identified under "A. PROPERTY OWNER APPEAL RIGHTS AND RESPONSIBILITIES" above, all taxpayer objections must be filed in writing with the Commissioner of Assessments no later than the 3rd Monday in May.
- BOA remains in session until all objections are reviewed and all corrections/changes to assessed values are made, up to the 2nd Monday in October.

Property Assessment Appeals

- The Commissioner of Assessments prepares the assessment roll as corrected by BOA and delivers it to BOR. The final corrected assessment roll is delivered to BOR not later than the 2nd Monday in October.
- BOA issues its findings/conclusions in a written assessment Notice of Determination on each property for which it received a timely filed objection.
- In order to bring a decision by BOA to BOR, a taxpayer (property owner) must file a written objection with the Commissioner of Assessments within 15 days from the date BOA issues its Notice of Determination. Taxpayers who do not timely file an objection with the Commissioner are deemed to have accepted the BOA Notice of Determination.

C. BOARD OF REVIEW (BOR)

Objections to BOA decisions are heard by BOR, comprised of 5 to 9 City residents who are appointed by the Mayor and approved by Common Council. An Assessor may not be a member of BOR. BOR members may not occupy a public office or be publicly employed. BOR members have staggered 5-year terms.

City Assessor Responsibilities to Board of Review

- The City Assessor is the Commissioner of Assessments.
- The City Assessor provides updated assessment rolls to BOR. As a first class city, Milwaukee’s BOR may hold hearings before the City Assessor finalizes the assessment roll. As previously noted under “B. BOARD OF ASSESSORS” above, the final assessment roll as corrected by BOA is due by the 2nd Monday in October.
- The City Assessor or a member of the assessment staff who is designated by the City Assessor serves as the Clerk of BOR. The Clerk of BOR is responsible for the following:
 - Publish a notice of meeting times and places at least 15 days before the first BOR meeting.
 - Swear in all persons who testify about the assessments heard by BOR.
 - Keep an accurate record of all BOR proceedings.

Property Assessment Appeals

- Prepare an affidavit that specifies the date that the notice of the assessment as finalized by BOR was delivered or mailed to the property owner.
- Send an explanation of appeal rights and procedures with each BOR Notice of Assessments that is sent to each property owner.
- Prepare a summary of BOR proceedings and determinations after BOR has completed its work.
- Be present at each BOR meeting and under oath:
 - Submit to examination by BOR members.
 - Fully disclose to BOR such information as the Clerk of BOR may have regarding the assessment.
 - Fully disclose to BOR any other matters pertinent to the inquiry being made.

BOR Responsibilities

- BOR meets annually to review appeals of assessed value that are submitted by City taxpayers/property owners.
- BOR may not waive the requirement that objections be in writing and submitted to the Commissioner of Assessments on or before the 3rd Monday in May.
- The first meeting of BOR occurs at any time during the 30-day period beginning on the 2nd Monday of May.
- All meetings of BOR are publicly held and open to all citizens at all times.
- BOR must provide the objecting property owner, his or her representative, and the City Attorney at least two days notice of the time and location of BOR hearing.
- Changes, corrections and determinations that are made by BOR are presumed correct unless rebutted.
- BOR carefully examines the assessment rolls, corrects all apparent errors in description or computation, and adds all omitted property.

Property Assessment Appeals

- A member of BOR may only discuss and/or receive at a session of BOR any information about an objection that will be brought before BOR.
- From the evidence before it, BOR shall determine whether the City Assessor's assessment is correct. BOR shall presume that the City Assessor's valuation is correct unless the objector provides sufficient information to show the valuation is incorrect. If the assessment is too high or too low, BOR shall adjust the assessment accordingly.
- If BOR identifies property that may have been omitted from the assessment roll of the City or may have been assessed above or below the general average of City assessments, BOR shall:
 - Fix the day, hour and place at which such matter will be heard.
 - Notify the owner, agent or possessor of the property in time to appear at the BOR hearing that BOR intends to review the assessment or place it on the assessment roll. The notification should include the time and place of the hearing.
 - Subpoena any witnesses that BOR deems necessary to testify about the property value. The expense incurred shall be a charge against the City.
 - Review the matter at the time and place appointed.
- **BOR Notice of Decision** – Before BOR adjourns for the year, it shall provide to the property owner or representative the notice of the final amount assessed by BOR. The notice shall be delivered either by personal delivery or by mail, return receipt required, and an explanation of appeal rights and procedures shall be included. The Clerk of BOR shall prepare an affidavit specifying the date that the notice was delivered or mailed.
- **BOR Delivery of Assessment Roll** – No later than the first Monday in November, BOR shall deliver the assessment roll to the Commissioner of Assessments, as examined, corrected, and completed by BOR.

Structure of BOR Hearings

- BOR first hears the owner or the owner's representatives and the owner's witnesses.

Property Assessment Appeals

- BOR may hear testimony from any person it believes has knowledge of the value of the property being examined.
- BOR may compel witnesses to attend the hearing and may require that any relevant information about the property's value be brought to the hearing (including but not limited to books, inventories, appraisals, and documents). If requested by either the City Assessor or the objecting property owner, BOR will compel witnesses to attend and/or will require any relevant information about the property's value.
- A majority of the members of BOR present at the meeting shall constitute a quorum for purposes of making a determination, and a majority vote of the quorum shall constitute the determination. All determinations of objections shall be by roll call vote. In the event there is a tie vote, the assessment shall be sustained.

City and State Calculation of Property Values

A. HOW CITY CALCULATES PROPERTY VALUES

To address the diverse nature of commercial property, the City Assessor's Office typically uses Rental Income Models of valuation to calculate assessed property values. These models are based on the net rental income that a property could or does produce. Net rental income typically drives the commercial marketplace and is appropriate for most commercial property.

To value hotels, the City Assessor uses rental valuation models that are more complex than the rental models used for other commercial property. The City Assessor also has a market regression model that uses property attributes similar to residential attributes to value commercial apartment properties with 18 units or less.

For multi-use commercial properties, market rent is applied to different building sections, and the various market rent incomes are added together to calculate a total building rent income. For example, a downtown high-rise commercial building may have retail units on its first floor, business suites on floors two through four, and residential apartments on the upper floors. Each of these uses would have different market rental rates. Once the total annual potential income is determined, it is adjusted for vacancy and expenses such as property taxes to arrive at net income. The term that assessors use for this estimated net income value is "net operating income." Accountants would call this value "net rental income." The net income then is capitalized by a market capitalization rate to calculate assessed value.

The City Assessor uses market information to adjust the variables that are used in the Rental Income Approach, including gross rental income, vacancy, expenses, and a gross rent multiplier. The City Assessor then compares samples of the calculated assessment value with recent sales to test how well the estimate works and to modify the model as needed. Thus, the City Assessor uses market information from recent sales to adjust the mass appraisal model, which then is used to calculate the value of individual commercial properties.

In order to provide accurate assessments of individual properties, local assessors must utilize a great deal of detail and flexibility. The WI DOR Manual for appraisers states, "It is not sufficient for the assessor to merely stratify properties and sales according to

City and State Calculation of Property Values

their statutory classification [residential or commercial] and develop one trending factor for the entire class of property” [2005 *Guide to the Property Assessment Process for Wisconsin Municipal Officials, WI DOR*]

As our current economic downturn highlights, general economic conditions such as unemployment, interest rates, inflation, supply and demand, and changes in tax laws also influence the value of real estate. The City Assessor considers economic conditions in addition to sales price. As discussed later, when calculating equalized values, the State only considers economic conditions if they are reflected in the prior year’s sales prices.

The City Assessor revalues each piece of taxable property annually for the upcoming assessment year. The assessment starts with the prior year value of the individual property. The City Assessor then stratifies properties by a variety of criteria including property use, location, neighborhood, and physical characteristics. Property values are then compared both within and across strata.

Assessed values also may be adjusted for other factors, including, but not limited to:

- Physical inspections of the property
- Building permits for property improvements, remodeling, repairs, and additions
- Updates to property records for land splits, new construction, demolitions
- Property location or neighborhood
- Property size and age
- Other property attributes.

After the assessed value for each parcel is determined, the City Assessor calculates the total assessed value for each class of property (commercial) by totaling all the parcels in the class. This total assessed value by class is then reviewed by the Department of Revenue in the process called equalization which is discussed below.

The City Assessor’s Office periodically reviews the procedures they use to perform assessments. These periodic reviews identify both procedures that are effective and procedures to improve or enhance before the next year’s assessments are calculated.

Individual property owners have the right to appeal the assessed value of their property to the Board of Assessors, the Board of Review, and the Court System.

City and State Calculation of Property Values

B. HOW STATE CALCULATES EQUALIZED VALUE

The Wisconsin Department of Revenue (DOR) uses assessment to sales ratio studies to calculate equalized value for each class of property in each municipality (city, village, or township) in Wisconsin. Three of these property classes are in the City of Milwaukee – residential, commercial and manufacturing.

The WI DOR Manual directs local assessors to use the most effective assessment methods that are available to calculate assessed value. Due to the diversity of Wisconsin markets, local assessors use different methods to calculate assessed values. In addition, depending on how often properties are revalued and when the most recent revaluation occurred, local assessments may not be uniform across municipalities. Given the differences in local assessment processes, to fairly allocate State shared revenues to local governments, DOR uses equalized value to estimate property values for each taxing jurisdiction. These values are called equalized values because they are calculated with a uniform set of mass appraisal techniques for each of the 1,800 local governments in Wisconsin.

To calculate equalized value, DOR adjusts the prior year equalized value for changes and corrections made by local assessors (includes WI §70.57 adjustment), calculates an adjustment to the economic value of the class of property based on sales, and adds the value of net new construction reported by the local assessor, and makes other modest adjustments.

Prior Year Adjustment – In June of each year, local assessors send a Final Assessor’s Report to DOR, reporting total property values by class as of the previous January 1st. However, as updated property information is received, local assessors continue to change and correct assessed values for individual properties after the Final Assessors’ Reports are sent to DOR. Thus, the adjustments that DOR makes to the prior year’s equalized values also include changes and corrections to assessed values that local assessors made after the Final Assessor’s Report was sent to DOR.

Adjustment to Economic Value – DOR calculates changes to economic value by class from sales of property during the previous year. DOR stratifies the property by class, compares the selling price to the local assessment for each sold property, and establishes

City and State Calculation of Property Values

a ratio between the total price paid for all property sold within a class and the total assessed value of the sold property. This ratio reflects the inflationary (or deflationary) change in a municipality's values. This 'economic adjustment' is applied against the prior year's equalized value to calculate the total economic change in each class of property.

If there are enough sales and if the sales represent a reasonable cross section of properties in the community, DOR assumes that the relationship between the sales and assessments reflects the value of that class. If there are too few sales in a small municipality to perform this analysis, DOR may use sample property appraisals for this analysis.

Net New Construction (new construction less property removed from service) – DOR relies on the Final Assessors' Report for other property valuation changes, including new construction and removal or reclassification of real property.

Fair Market Value and Estimated Fair Market Value

Fair Market Value is the amount a typical, well-informed purchaser would be willing to pay for a property. The seller and buyer must be unrelated, the seller must be willing, but not under pressure to sell, and the buyer must be willing, but not under obligation to buy. The property must be on the market for a reasonable length of time, payment must be in cash or its equivalent, and financing must be typical for that type of property. A sale is considered market value and at arm's-length if all of these conditions are present.

Wisconsin Law requires property assessments to be based on fair market value. Thus, as property values change in the market place, those changes must be reflected on the assessment roll.

Several years ago, the Wisconsin Legislature required that an "Estimated Fair Market Value" be placed on the property tax bill. Estimated Fair Market Value on a property tax bill is based on the equalized value calculated by DOR. While the theory behind Estimated Fair Market Value is that it approximates current market value, *actual* Fair Market Value is affected by a number of variables that are not considered in the Estimated Fair Market (Equalized) Value, including location, condition, age, use, type of property, and current market conditions.

Glossary of Terms

Term	Definition
Absolute Percentage	Measures an individual assessment and how close it is to market value. Ideally, this percentage would be less than 5 percent.
Aggregate Ratio (also Weighted Mean)	Total of all individual assessments for properties sold during a given year divided by the total of all individual sales prices during that year. The Aggregate Ratio is a measure of central tendency (average) and is expressed as a percentage.
Apportionment	A proportional distribution of the levy of a taxing jurisdiction among municipalities based on the value of the municipalities or parts of municipalities.
Appraisal	The estimation of market value.
Appraised Value	An estimate of the value of a property before application of any fractional assessment ratio, partial exemption, or other such adjustment.
Appraiser	An appraiser estimates value. Appraisers specialize in many areas. See definition of “Assessor” for those who appraise property for taxing purposes.
Assessed Value	The monetary amount at which a property is put on the assessment roll. Also, the dollar amount assigned to taxable real and personal property by the assessor for the purpose of taxation. Assessed value is called a primary assessment because a levy is applied directly against it to determine the tax due. Accurate assessed values ensure fairness between properties within the taxing jurisdiction. (<i>See Equalized Value for fairness between municipalities.</i>)
Assessment Hierarchy	Used by Wisconsin assessors to describe the methods of assessing value identified by WI Statute §70.32 and by 3 approaches to value. WI §70.32 – Arm’s length sale of the property, arm’s length sales of similar properties, other professionally acceptable appraisal practices. 3 approaches to value – Sales comparison, income, and cost approaches.
Assessment Ratio or Assessment Level	The relationship between the assessed value and equalized value of all taxable property within a municipality. For example, if the assessed value of all taxable property in the City is \$19,720,000,000 and the equalized value is \$20,000,000,000 the assessment ratio would be 98.6%. “Assessment Level” typically refers to the tax district; “Assessment Ratio” typically refers to the individual parcel.
Assessment Roll	The basis on which the property tax levy is allocated among the property owners in a jurisdiction with taxing powers.
Assessment-to-Sales Price Ratio	The ratio of assessed value to sale price (or adjusted sale price) of a property.
Assessor	The head of an assessing jurisdiction. An assessor may be either elected or appointed. An assessor is responsible for appraising all property within an assessment district to determine the share of the levy that each parcel will bear, and also determines which properties are exempt from property tax.
Average Ratio	Calculated by adding the sales ratios together and dividing by the total number of ratios, the Average Ratio measures the tendency of assessments to be at, above or below market value.

Glossary of Terms

Term	Definition
Board of Assessors (BOA)	A committee comprised of the supervisory staff of the Office of the Commissioner of Assessments, whose sole purpose is to review all written appeals by property owners to assessments made by the Office of the Commissioner of Assessments, and to complete and perfect the assessment roll.
Board of Review (BOR)	A committee of private citizens appointed by the Mayor and confirmed by Common Council, whose task is to hear appeals of taxpayers (property owners) relative to assessments made by the Office of the Commissioner of Assessments, after review by BOA.
CAMA System	A computer assisted mass appraisal system no matter where it is purchased or from whom. Also see IAAO below.
Central Tendency, Measure of	A single point in a range of observations, around which the observations tend to cluster. The three most commonly used measures of central tendency are mean, median and mode.
Classification	Property is classified as either real property or personal property. Real property is comprised of residential, commercial, and manufacturing property. Residential and Commercial property are assessed by the local assessor. The WI Department of Revenue assesses manufacturing property.
Coefficient of Concentration (COC)	The simplest and easiest way to measure uniformity of assessments is the coefficient of concentration (COC). The COC measures assessment uniformity; it is expressed as the percentage of assessment sales ratios (individual properties) which lie within 15 percent of the median.
Coefficient of Dispersion (COD)	The average percent deviation from the median ratio; the COD measures the average distance (in relative terms) that individual ratios lie from the median.
Coefficient of Variation (COV)	The standard deviation expressed as a percentage of the mean; the COV indicates the degree of concentration or spread in the distribution of assessment ratios.
Commercial Class of Real Estate	Properties where the predominant use is the selling of merchandise or a service. Apartment buildings of 4 or more units and office buildings are included in this class. This class also includes vacant land if the most likely use would be for commercial purposes. Commercial property represents about 32% of the total assessed value of the City of Milwaukee. The City Assessor reports three sub-classes of property within the commercial class – Local Mercantile, Special Mercantile, and Commercial Apartments.
Commissioner of Assessments	A position appointed by the mayor and confirmed by the Common Council. The Commissioner’s sole responsibility is to oversee the assessment process in the City of Milwaukee.
Comparables, Comparable Sales	Recently sold properties that are similar to a property being appraised. The sale price and physical, functional and location characteristics of the properties are compared to the property being appraised in order to arrive at an estimate of value.
Equalized Value	The full market value of all taxable property in a municipality, both real and personal. The equalized value is determined by the WI Department of Revenue each year.

Glossary of Terms

Term	Definition
Equalization	The process of establishing the January 1 market value (use value for agricultural land) by class of property (residential, commercial, agricultural, forest, manufacturing, etc.) for each taxing district.
Equalization White Paper	Paper published in 2002 by Wisconsin Department of Revenue, title “Wisconsin’s Equalized Values: The Uniform Valuation of Taxable Property.
Equity	In reference to property taxes, a condition in which the tax load is distributed fairly, based on the uniformity provisions of the WI State Constitution (i.e. each person’s share of the tax is based on each person’s value compared to the total value).
Exempt Property	Properties that are exempt from local taxation by state law.
Fair Market Value	The dollar amount for which a property would be sold by a willing seller to a willing buyer under normal market conditions.
Income Approach	Because rental income typically drives commercial property values and properties in the commercial class have highly diverse uses, the Income Approach is used to develop estimates of value for commercial property.
International Association of Assessing Officers (IAAO)	A nonprofit educational and research association of individuals in the assessment profession and others with an interest in property valuation.
Interior Inspection	The physical inspection of the parcel including a thorough examination/inspection of the interior of the buildings on the parcel in order to ascertain the physical condition of those buildings.
Levy	See Tax Levy and Property Tax Rate.
Market Value	See Fair Market Value.
Marshall Valuation Service	Marshall Valuation Service is an independent on-line valuation service that the City Assessor’s Office subscribes to and occasionally uses with the Cost Approach to valuating property.
Mass Appraisal	The process of valuing a group of properties as of a specified date.
Mean	The average value. It is determined by dividing the total value by the number of properties.
Median	The value of the property located at the midpoint of all property values when arranged in order according to size. It is a positional average and is not affected by extreme values.
Mode	The most frequent occurring variable.
Model	A representation of how something works. For purposes of appraisal, a representation (in words or an equation) that explains the relationship between value or estimated sale price and factors representing supply and demand.
Outliers	Observations that have unusual values, that is, they differ markedly from a measure of central tendency.
Price-Related Differential (PRD)	The mean divided by the weighted mean or Aggregate Ratio; the PRD indicates the degree to which assessments are regressive (if > 1) or progressive (if < 1).
Property Access and Valuation (PAV) system	The software system used by the City Assessor’s Office to value individual properties in the City of Milwaukee.

Glossary of Terms

Term	Definition
Property Characteristics	Characteristics of a property which would affect the property’s marketability, such as age, construction, condition, location, etc.
Property Record Cards	The manila folders in the Assessor’s Office that contain historical information for each City property.
Real Estate Transfer Return	The real estate transfer return is required by DOR to be filed with the State upon transfer of any real property.
Reassessment	The redoing of the existing assessment roll; all properties in the district are viewed, valued, and placed in the new assessment roll. The new assessment roll then replaces the original roll.
Rejected Sales	Both the State of Wisconsin and IAAO have indicated that to make market value assessments, a sample of sales that truly indicate the market conditions should be used. To that end, sales should be analyzed to reject those sales that are not indicative of market.
Rental Income Approach	See “Income Approach.”
Revaluation	The determination of new property values of an upcoming assessment year.
Sales Ratio	Calculated by adding the sales ratios together and dividing by the total number of ratios, the Sales Ratio measures the tendency of assessments to be at, above or below market value.
Site Characteristics	Characteristics of (and data that describe) a particular property, especially land size, shape, topography, drainage, and so on, as opposed to location and external economic forces.
Standard Deviation	The square root of the variance; measures dispersion and variability of normally distributed data. Individual assessments do not form the normal distributions that are used in statistics.
Tax Base	The total assessed value of all assessments in a municipality that are subject to local property taxes.
Tax Commissioner	The former name for the Commissioner of Assessments. Also see Commissioner of Assessments.
Tax Incremental Financing (TIF) District or Tax Incremental District (TID)	A contiguous geographic area within a city that is defined and created by resolution of the local legislative body. A TID is targeted toward eliminating blighted areas, rehabilitating areas declining in value, and/or promoting industrial development. A TID must be created by legislative procedures. Taxes that are generated from increases in value within in a TID are used to pay for TIF eligible projects.
Tax Levy	The total amount of property tax money that a taxing unit (such as a school district, city, county) needs to raise to provide services.
Tax Rate (also Levy Rate)	The tax rate is determined by dividing the amount of the tax levy by the total assessed value of the tax district. It is often expressed in terms of dollars per thousand.
Tax Roll	The list of all taxable properties in the City and their respective assessed valuations as of January 1, which is kept by the Office of the City Treasurer.
Taxation District	A town, village, or city. If a city or village lies in more than one county, the portion of the city or village that lies in each county.

Glossary of Terms

Term	Definition
Taxation Jurisdiction	An entity authorized by law to levy taxes on general property located within its boundaries, including towns, villages, cities, school districts, sewerage districts, lake rehabilitation districts.
Taxing Bodies	The following taxing bodies determine the total tax levy for property located in the City of Milwaukee – Milwaukee Public Schools, City of Milwaukee, Milwaukee County, Waukesha County, Washington County, MMSD, MATC, State of Wisconsin (for reforestation).
Uniform Standards of Professional Appraisal Practice (USPAP)	Quality control standards that are applicable for real property, personal property, intangibles, and business valuation appraisal analysis and reports in the United States.
Uniformity	The WI State Constitution demands that all property within the municipality be taxed at the same tax rate. State law demands that the valuation be based on market value.
Uniformity among Strata	Measures the uniformity of assessments among each stratum. IAAO indicates that the level of appraisal among each stratum (class, neighborhood, age group, and the like) should be within 5 percent of the overall level of appraisal of the jurisdiction (aggregate assessment ratio for the City as a whole).
Uniformity of Assessments	For the purposes of the audit, “uniformity” measures the consistency of assessment-to-sales ratio for sales within a given group of city properties. (Examples: By value of sale, by neighborhood location; by age of property, etc.)
Valid Sales	“Arm’s-length” sales where the sale price has not been discounted or marked-up over true market value. Valid sales generally do not include foreclosures, inter-family or estate sales which may be sales made under distressed circumstances.
Variance	Measures spread or variability. To calculate, take the difference of each ratio from the mean, square each of the differences and total the squares, then divide the sum by the number of ratios (n). In some situations, n-1 is used as the divisor to provide a more unbiased estimator of the population variance. The square root of the variance is the standard deviation.
Variation of the Ratios	Measures uniformity of the assessed values within a group.
Weighted Mean (also Aggregate Ratio)	See Aggregate Ratio.

City Assessor's Response



ASSESSOR'S OFFICE

Mayor Tom Barrett

Mary P. Reavey
Assessment Commissioner

Peter C. Weissenfluh
Chief Assessor

November 24, 2009

Mr. Wally Morics, Comptroller
City of Milwaukee
City Hall
Milwaukee, WI 53202

Dear Mr. Morics,

The Assessor's Office appreciates the efforts made by your department to study our commercial property assessments. The assessment process can be complicated and measures of performance and uniformity are not easily understood. Because of this we also appreciate your contracting some of the technical parts of the audit with Landretti and Company, a firm that specializes in assessment and appraisal processes, reports and products.

Beginning in June of 2007 we have engaged in numerous meetings and provided extensive data and documentation to both your office and Landretti and Company, LLC. We appreciate that you recognize that this office has fully complied with your information requests during this process. We are proud of our staff, proud of the product we produce and truly believe the results do create a uniform and equitable basis for distribution of the various taxing body levies. That fair distribution along with consistent application of state statutes is our ultimate goal. Although the "appraisal" profession is considered an art rather than a science professional standards do exist. We consistently meet, or in fact, exceed those standards. We are pleased that you also found that to be true and included that in your audit findings.

Our comments are presented in the attached report. We would be happy to address any questions that you might have.

Sincerely

Mary Reavey
Assessor's Office

City Assessor's Response

AUDIT REPLY – ASSESSOR'S OFFICE

Background: The Assessor's Office is responsible for uniformly and accurately assessing all taxable property in the City of Milwaukee excluding property classified by the Department of Revenue as manufacturing. This includes the annual valuation of over 160,000 parcels of real estate and personal property. To accomplish this task our current staff consists of 47 professional, technical, and administrative employees.

The subject of the Comptroller's audit is our commercial property appraisal system. It is important for the readers of the report to understand that this is only one component of the workload in the Assessor's Office. In conjunction with appraising commercial real property we also value all commercial personal property, all residential property, review all manufacturing assessments, make decisions on property tax exemptions, and process property appeals through the Board of Assessors and the Board of Review. In addition we are responsible for reporting requirements to the Department of Revenue on total property valuations and on all property located in Tax Incremental Districts.

In order to realize our goal of uniformity and fair valuation of commercial property the Assessor's Office uses mass appraisal techniques. Mass appraisal is the systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing. For this process to be effective it is necessary to use computer technology. This process is endorsed by both state and international professional organizations. In addition, the mass appraisal process is covered under Standard 6 of the federally mandated Uniform Standards of Professional Appraisal Practice (USPAP). In Milwaukee, the Assessor's Office adopts and adheres to appraisal/assessment practices developed by the Wisconsin Department of Revenue (DOR), the International Association of Assessing Officers (IAAO), and the Wisconsin Association of Assessing Officers (WAAO), in addition to USPAP. Although the appraisal of property is considered an "art" versus a "science", these organizations provide guidance relative to performance. In all cases, we are proud to say that we meet and exceed standards that have been set and are pleased that both you and the consultant found that to be true as well.

The following response is structured based on the four recommendations contained in the report.

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Recommendation 1: The City Assessor evaluate the costs and benefits of obtaining and implementing assessment software that would incorporate the use of the cost and sales approaches to assessment as well as the rental income approach.

We are not opposed to studying the feasibility of a software program that integrates the three traditional approaches to value. Such systems exist but we have always questioned the effectiveness and the need relative to the cost. There are many companies that have developed a wide array of assessment software in the market that is available for purchase. In the late 1990's the department investigated and even purchased software from one of the largest vendors only to find that the product would not meet the needs of the department due to its rigidity and the difficulty adapting the software to meet the needs of the Wisconsin assessment system. After that experience, the assessor's office built its own assessment system using state of the art technology. Its design and flexibility has served and continues to serve us well. The cost-benefit at this point of investing a million dollars to upgrade our system does not seem prudent given the reliable results and outcomes using our current software.

As discussed in the report there are three commonly recognized approaches to value in the appraisal and assessment professions; the sales approach, the income approach and the cost approach. Used correctly all three methods should converge to a relatively uniform value. Because of the large universe of properties that assessor's office values annually the City uses mass appraisal models that incorporate market based data. Mass appraisal of property is recognized as the best practice in developing values for assessment purposes. Therefore, we feel that our use of a sales-based income model to set the value for our initial commercial assessments is appropriate.

We do have a separate system we use, when needed, to develop a cost approach to value. The cost approach is most useful for recently constructed and owner occupied special purpose properties that do not often sell nor produce an income stream. Our current use of the cost approach comprises approximately 141 buildings or less than 1/10% of the city's commercial properties. Both valuation textbooks and the courts consider the cost approach the least reliable valuation method and typical commercial appraisers use it when there is insufficient data available for a sales comparison approach or an income approach.

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The sales comparison approach to value is preferred valuation method according to state statute. However, in order to develop credible adjustments to be used in a computerized version of the sales comparison approach, huge volumes of commercial sales are necessary. Even in City of Milwaukee with its vast commercial tax base we normally do not have the luxury of having enough current sales of particular types of commercial properties to meet that requirement. In order to deal with that we have found that developing values using a model driven income approach to be one that is practical, inexpensive, and develops credible results.

While it would be nice and efficient to just click a button and create an appraisal report from any system that could be used in the appeal process, it is unlikely that any system would circumvent the need to produce a complete report that would be in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). In 2008 the City passed legislation that implemented statutory provisions requiring a complete hearing for the Board of Review appeal. Further appeals would be based on the record made at the Board of Review rather than the past practice that allows for a complete retrial at circuit court. This legislation eliminates a \$74.37 action. This means that for the Board of Review both the City and commercial property owners and/or their agents must produce a complete report that is USPAP compliant. The task of supporting commercial assessments upon appeal has been challenging especially with changing appeal laws, unique valuation problems and legal issues.

The department feels strongly that a new and fresh look at the property under appeal is required at the Board of Review level. This approach to an appeal validates the mass appraisal process and the systems we use. There is no commercial program for either private fee appraisal work or for assessment work that can effectively write a USPAP compliant appraisal report. However, we have made great strides in developing reports addressing each distinct appeal that fully support our assessments. These reports have been successful at the Board of Review and beyond.

Recommendation 2: Integrate other assessment tools and documentation within the Assessor's Office assessment software.

The assessor's office agrees with this recommendation. We consider this an on-going goal of the department as can be seen in our accomplishments over the last 10 years which include incorporating into our software the following: the entire residential

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assessment and appraisal system, the personal property appraisal and administration system, the objection recording and tracking, assessment validation reports for commercial and residential property, assessment stratification tools for both residential and commercial property, the biennial exemption reports, the ability to assign, distribute, and route work to appraisers among other things. In fact, over the time period in which the audit was conducted we revamped our system to give us the flexibility to analyze groups of neighborhoods together in order to accommodate a market that includes far fewer sales.

We are well aware that the ideal system would incorporate everything that could possibly be needed. Since the real-estate market is ever-changing having the ability to provide fair and accurate assessments is our main goal. Thus we have concentrated our focus to creating tools within the software that will help us do that. Although other programs we use may not be in the system we do provide alternative methods to make access as easy as possible for our staff. For example we make available on-line access to the completion status of building permits, on-line access to property maps and property pictures, on-line access to foreclosure information and on-line access to actual deed recording information.

Every year we attempt to designate money in our budget that we can allocate to improving our systems. Hopefully we can continue to do that. Right now our priority is to find an electronic solution to the volumes of material we accumulate during litigation. In addition we need to address changes to our system that will streamline sales data that we submit to the Department of Revenue to take advantage of their electronic upgrades.

Recommendation 3: Replace historic Special Mercantile, Local Mercantile and Commercial Apartment types with more refined groups.

These historic commercial types form the basis of our computerized valuation system. They are specifically meant for our internal reporting, assignment processes and management. As indicated in the report the values are not determined using these broad categories but on a more neighborhood or use-type basis. We have 21 local commercial neighborhoods, 6 special mercantile neighborhoods and 49 apartment neighborhoods.

In neighborhoods with sufficient sales we value property at the neighborhood level. We also have the flexibility to define broader neighborhoods if needed. This is a new tool

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that allows us to increase our sample size, aiding our analysis and assisting us in making better assessments. Because the real estate market is highly localized and diverse in Milwaukee this tool provides the flexibility we need to create good assessments.

We do have the ability to report values in many ways. For instance on the internet we also report data by aldermanic district which is very well understood and received by the public. Reporting of commercial values could be modified yearly as the market dictates but that may be more confusing to the public since they are accustomed to our current reporting. Perhaps posting our commercial neighborhood maps in addition to our residential neighborhood map would be a step to increase transparency. Before implementing any substantial changes in reporting we think this recommendation should be studied thoroughly and stakeholders should be consulted. At this time, based on conversations and communications we have with commercial users of our system we believe that our current system is understood and that the categories we report to the public are valid.

Recommendation 4: DOR should consider auditing the accuracy of the City's commercial assessments, then, if commercial assessments are accurate accept the City of Milwaukee's aggregate assessed value as equalized value.

The Assessor's Office has no objection to this recommendation. In fact, it is a solution that we have advocated to the Department of Revenue (DOR) on many occasions. There are benefits that would result if this recommendation was implemented including less taxpayer confusion with the verbiage currently on the tax bill. We know that taxpayers are confused by the terms "fair market value" and "assessed value". "Fair market value" as determined by the DOR is a misnomer since the value is really an extension of the ratio they calculated for the City's equalized value. Equalized values are made at the municipal level, not the parcel level and as indicated in the audit is less reliable on a parcel level basis than the City's assessed value. Another benefit would be in eliminating the redundancy and over-lapping work that the two offices currently do. With staff shrinkage occurring at both the state and municipal levels of government it makes sense to create a more efficient system whereby the City's process could be thoroughly reviewed and accepted as accurate by an audit procedure. This is especially true for Milwaukee since we have engaged in annual revaluations for eight years.

Over two years have passed since the start of this audit. Since that time the DOR has

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been much more receptive to allowing this recommendation as an alternative to their current equalization practices. In fact, in an effort to make all areas of the state provide professional assessment practices they are currently drafting a plan that would call for county-wide assessing. If this proposal is approved and signed into law, the equalization process would shift to an auditing process on a statewide basis. The resources it takes to provide equalization using their current processes is archaic and labor-intensive. Regardless what happens with the county-wide assessment proposal it is our intent to request they seriously consider using the audit process in Milwaukee.

Summary

We believe that the Comptroller's audit confirms that our assessment process for commercial property as completed yearly by the Assessor's Office conforms with and exceeds acceptable appraisal practices. We have developed a system that is flexible and can be easily managed to cope with the trends of the real estate market. As indicated in the audit the values produced by the City are more accurate than the value produced during the State's equalization process. This has been borne out by the successful revaluation for 2009 that measured the very volatile 2008 market and the current success we are having in defending our assessments through the court system. In short, the City is in a good position relative to all its assessments including the subject of this report, the commercial assessments.