THE IMPACT OF THE NEW JERSEY DIRECTOR'S RATIO AND PENNSYLVANIA'S RATIO ON YOUR PROPERTY TAX ANALYSIS

BY: Lloyd A. Bettis, CMI, Chairman/CEO, National Bureau of Property Administration October 31, 2014

New Jersey and Pennsylvania Ad Valorem Ratio Summary (as understood and practiced by the National Bureau of Property Administration)

NEW JERSEY'S DIRECTOR'S RATIO

A critically important aspect of the NJ assessment system is enforced under Chapter 123 of the NJ Tax Code… it is characterized as the Director's Ratio. It is promulgated annually for each municipality by the staff of the Department of the Treasury's Division of Taxation. This percentage ratio of the average assessed value to the average market value, for each municipality, serves as the benchmark by which property owners can judge the market validity of their annual assessments.

In other words, one divides the assessment by the annual ratio and the resulting 100% assessment equivalent can be compared to the property owner's opinion of market value for the real estate.

The updated ratios are published to coincide with the October 1st assessment date. Since they are published during the pre-tax year, the ratios actually lag the tax year by one year. Also, the sampled sales are typically taken from a three-year period preceding the publication date. This means the ratios represent a historic perspective, rather than a net present value, as would be the case with, for example, a forward looking discounted cash flow basis for valuation.

In order for an appeal to be considered valid, the 100% assessment equivalent, indicated by the current Director's Ratio, must be at least 15% greater than the owner's opinion of value…a feature that provides the assessor with some noteworthy wiggle room. This 15% margin is referred to as the "corridor".

The Director's ratio changes each year and must be monitored each year. While the assessment may remain the same, the assessor's market value increases each year as the assessment ratio decreases. Here is an example:

CURRENT ASSESSMENT ON TAX BILL FOR YEAR ONE = $10,000,000
CURRENT ASSESSMENT RATIO = 75% (MEANING ASSESSMENT IS EQUAL TO 75% OF PERCEIVED MARKET VALUE)

MARKET VALUE = $10,000,000/.75 FOR A 100% MARKET VALUE = $13,333,333

While the assessment may appear to be reasonable on its own, when adjusted for the Director's Ratio the property may be assessed too high.

We anticipate the assessment ratio will start trending lower each year as inflation and market factors force property values higher. There is only one ratio calculated for all properties, including residential properties. Typically, residential properties make up most of the tax base and appreciate far more rapidly than commercial and industrial property. Therefore, as the ratio drops each year based primarily on the market strength of

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homes, the assessor's calculations indicate commercial and industrial property values also increase by the same percentage even though the assessment doesn't change. For example, look what happens when the assessment ration drops from 75% above to 65% below:

CURRENT ASSESSMENT ON TAX BILL = $10,000,000 (UNCHANGED FROM PRIOR YEAR)
ASSESSMENT RATIO IN YEAR 2= 65% (DROPPED DUE PRIMARILY TO APPRECIATION OF HOMES)
(MEANING ASSESSMENT IS EQUAL TO 65% OF PERCEIVED MARKET VALUE)

MARKET VALUE = $10,000,000/.65 FOR A 100% MARKET VALUE = $15,384,615.

This represents a 15.4 % increase in market value, even though the assessment hasn't changed. This creates an opportunity to talk to the assessor about lowering the assessment. In this case, the assessment needs to be reduced from $10,000,000 down to $8,666,669 at the 65% ratio in order to maintain the 100% value at $13,333,333 determined in year one. If the assessment is reduced, your taxes decrease by over 13%.

The most opportune time for resolving an assessment is the time period between the issuance of the new ratio in October to when the assessor closes the tax roll in late December or early January. This is part of the proactive effort practiced by the National Bureau of Property Administration.

PENNSYLVANIA'S RATIO

With regard to Pennsylvania, the assessment ratio works essentially the same way as NJ's Director's Ratio. However, the time period to work in Pennsylvania varies by each jurisdiction. Please contact us to discuss the specific jurisdiction in PA where your property is located.

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LLOYD A. BETTIS, CMI, is Chairman & CEO of the National Bureau of Property Administration, a national property tax consulting firm established in 1935 with current assignments in all 50 states, with New Jersey being the largest. Along with other members of his firm, he created The ProActive Property Tax Solution to help companies minimize real and personal property taxes by resolving issues early, quietly and favorably before they become problems.

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