



City of Madison

## Office of the City Assessor

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December 12, 2019

Madison Common Council  
210 Martin Luther King Jr. Blvd.  
Room 417  
Madison, WI 53703

Dear Alders,

The City Assessor's Office contracted with the International Association of Assessing Officers (IAAO) to undertake a Ratio Study of Sales for 2018 and 2019. I am happy to report that the study revealed a quality reappraisal effort (Madison is in a constant revaluation cycle), with both residential and commercial properties appraised within acceptable standards of appraisal level and equity. This means that the residential and commercial classes of property are being assessed correctly without inappropriately shifting the tax burden.

### Background

Assessments must be based on market value. Market value assessments ensure that the property tax burden will be equitably distributed according to Wis. Stat. § 70.32. Typically, the best indicator of market value is the price for which a property recently sold. Comparing the current assessed value of a parcel with the sale price for that parcel provides a good measure of whether the goal of market value assessment has been met.

### Statistical Applications in the Study

The Standard of Ratio Studies (IAAO) suggests that when ratios of the appraised values of parcels to their selling prices are arrayed by value that the median value in that array should fall within a range from 0.95 to 1.10, with a 1.00 representing a perfect match of appraised value to selling price. Time of the sale is always a consideration, requiring a stratification of sales by year.

An ongoing concern in mass appraisal is that sales do not occur with the same frequency for every value level. Instead, sales tend to cluster around a center point with fewer sales occurring at either the upper or lower levels. Without adjusting for this fact, the mass of sales in the middle will tend to pull the appraised value of high value properties down while lifting the appraised value of lower value properties - regressivity. If the opposite of that phenomenon is found, it is called progressivity. Sales data can also be used to indicate the degree to which assessments are regressive or progressive. A useful statistical measure of regressivity/progressivity is the price related differential (PRD). The calculation is simple: Divide the simple mean ratio by the aggregate ratio. If the answer is greater than 1, the assessment is regressive. Conversely, an answer below 1 indicates progressive assessment. The acceptable range is 0.98 to 1.03.

The coefficient of dispersion (COD) is a useful measure of variability or uniformity. The COD measures the average percentage deviation of the ratios from the median ratio. The COD has the desirable feature that its interpretation does not depend on the assumption that the ratios are normally distributed.

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### **Specific Findings**

The overall ratio statistics fell within acceptable ranges. For the residential class, there were few inconsistencies with the exception of sales of parking stalls wherein there were only 5 sales. Smaller sample sizes produce less reliable statistics. Further, parking stall sales are a challenge that will continue to be addressed moving forward. For the commercial class, the median and COD analysis were very good for 2018 and 2019. The PRD analysis was off by one point in 2018 (1.04 with 1.03 at the high end of the acceptable range) but very good for 2019. This indicates that we are in good shape but should continue to closely evaluate this class of property.

### **Area to Review**

Vacant land sales did represent a challenging area in the ratio study. There are not many sales. And, sales in this class can represent an agricultural land classification shift to a commercial or residential classification. Agricultural use-value is derived from the Department of Revenue and is related to the cost of corn. When this class is sold and reclassified, the value swings from use-value to fair market which can cause statistical anomalies. This type of property will continue to be closely evaluated with a committee of appraisers devoted to the challenge.

I am pleased with the outcome of this study. The IAAO is a well-respected and objective agency that has determined our appraisal efforts reflect a quality effort. It demonstrates the acumen and diligence exhibited by the staff in the City Assessor's office and should assure all taxpayers that the tax burden is appropriately allocated. This is a welcome finding just as tax bills are about to be disseminated. If you would like further information or have questions, please do not hesitate to contact me. Also, please keep in mind that I am available for outreach/educational efforts if any in your districts are interested.

Thank you.

Best,

Michelle Drea