

Princeton Joint Revaluation Study Commission

Report and Recommendations

April 4, 2011

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EXECUTIVE SUMMARY

The Township Committee and Borough Council passed resolutions in October of 2010 to establish a Joint Revaluation Study Commission to study the real property tax burden created on residents affected by the 2010 revaluation.¹ The specific charges for the Commission include the following:

- (A) explore initiatives of potential sources of relief for taxpayers struggling with the payment of increased property taxes following the revaluation;
- (B) review the laws of New Jersey as they pertain to property tax revaluation and make recommendations through the municipal governing bodies to the New Jersey legislature for revision of existing law so as to provide additional mechanisms by which municipalities can reduce financial hardship to taxpayers caused by property tax revaluation;
- (C) solicit opinion and data from residents and neighborhood organization concerning the results of the recently completed revaluation;
- (D) report to the Township Committee and Borough Council and the taxpayers of the community on findings and recommendations on or before 90 days from the date of establishment of the Commission. See APPENDIX 1 which includes copies of the resolutions.

The Commission was formed in January 2011 and met regularly over the course of several months, including meetings with the municipal tax assessor and the county tax administrator, members of the public, including representatives of the Princeton Fair Tax-Revaluation Group, as well as with advisors to the Borough and Township. At the first meeting of the Commission, we reviewed a legal memorandum provided to the Mayor and Borough Council which provided a useful outline of the issues to be explored by the Commission. See APPENDIX 2 for copy of Hill Wallack LLP memorandum. The Commission was initially comprised of six members. One of the Borough's three appointees felt compelled to withdraw in early March when new professional commitments left her with insufficient time to participate actively in the writing of the Commission's report.

Community reaction to the 2010 property tax revaluation by Princeton Borough and Township reflects concerns by property owners over the revaluation process and results, the overall level of property taxes, and the potential of both the amount and allocation of the tax burden to fundamentally change the character of our community, including significant impacts on low- and moderate-income households and senior citizens. See APPENDIX 18. As summarized above, the Commission's mandate was limited to a review and recommendations regarding the revaluation process and did not extend to evaluating or making recommendations regarding ways to reduce the overall property tax burden in the Borough and Township. Notwithstanding this limitation, the Commission members wish to acknowledge both the

¹ The Commission understood its charge to focus on the effect of revaluation on residential, not commercial, real properties.

difficulty that many homeowners have in paying their property taxes and the impact of steadily rising property taxes on the character of the community.

FINDINGS AND RECOMMENDATIONS

The 2010 revaluation was not without flaws. Individual property owners noted examples of inaccurate property cards, neighborhood or street-wide allowances that are not applied uniformly, seemingly anomalous land values, and apparently illogical neighborhood boundaries. At least one group challenged the method used to derive land values. Others questioned depreciation limits that seem to result in excessive values being placed on older structures.

Appraisals are not a science. They incorporate many assumptions that require the exercise of judgment, and there is room with each assumption for reasonable people to have differences of opinion.

Mass assessments are still more problematic in that they necessarily substitute statistical sampling techniques for the more labor intensive examinations conducted by most appraisers.

Further complicating the assessment process are the specific requirements of New Jersey law, which dictates, for example, the unit costs to be used in valuing improvements (buildings).

Given the inherent subjectivity of the appraisal process, the limitations of the mass assessment process, and the constraints imposed by New Jersey law, we believe that a reasonable person would conclude that the 2010 revaluation of the Princetons properties is difficult to challenge as improper in its methods or unreasonable in its results.

Much of the frustration voiced with the recent reassessment centered on the difficulty of obtaining explanations of assessed values and/or corrections of faulty assumptions. The current process for challenging an assessment is intimidating. There is a necessary reliance upon unfamiliar terminology (Director's ratios), unfamiliar bases of comparison (comparable sales), unfamiliar processes (formal appeals), and unfamiliar venues (tax court). Worse, it is possible for the uninitiated to mistake for hostility an official reliance upon arcane rules and procedures.

We therefore offer the following recommendations for clarifying the assessment process and making the appeals process less intimidating:

1. Update property assessments more frequently to avoid revaluation during periods of severe changes in the real estate market;
2. Improve opportunities for homeowners to participate in setting boundaries of neighborhoods established for assessment purposes;
3. Facilitate homeowner feedback on property cards;
4. Increase transparency by sharing with property owners the bases for their assessments, including the specific comparable sales that were used, the proposed assessments of other properties in their neighborhoods, and any other important factors that affected their assessments. Information should be provided to homeowners in advance of individual review sessions with the appraisal firm so that homeowners can prepare for those review

- sessions. Homeowners should also be better informed of the options available if those sessions do not answer their questions or resolve their disputes;
5. Encourage the municipal assessor to make an effort to resolve disputes informally, thereby minimizing the number of homeowners who are forced into the formal appeals process;
 6. Increase transparency of and demystify the appeals process;
 7. Consider providing technical assistance for low- and moderate-income taxpayers wishing to pursue appeals;
 8. Make interest rates, grace periods, and late payment penalties consistent between the Borough and Township; consider waiving interest and penalties for income-qualified residents suffering financial hardship;
 9. Continue to investigate the efficacy of Fair Housing Act bond financed support for qualified low- and moderate-income residents;
 10. Explore potential sources of private funding to mitigate the impact of rising property taxes on low- and moderate income families;
 11. Conduct a more in depth review of the eligibility of properties claiming tax-exempt status;
 12. Educate homeowners regarding available subsidies;
 13. Consider the adverse affects on low- and moderate-income homeowners when deciding zoning changes and variances that have the potential to drive up land values;
 14. Explore options available to mitigate the tax-driven pressure on low- and moderate-income residents to sell their homes;
 15. Consider the establishment of a more active citizens committee to work with the municipal assessor during the property revaluations;
 16. Consider encouraging local universities to study the impact of the current property tax valuation system on low- and moderate-income homeowners and how that impact might be mitigated by future legislation.
 17. Ensure that the assessor has adequate resources to support the implementation of these recommendations.

The members of the Commission hope that the information contained in this report will both increase Princetonians' understanding of the revaluation process and suggest to local governing bodies ways in which that process can be improved.

A. REVALUATION PROCESS

OVERVIEW

The real property tax is a tax that is locally collected for the support of local taxing districts, (*i.e.*, municipal and county governments and school districts). No part of the real property tax supports State government, but a large part of it supports functions that the State has imposed on local units.

Before levying real property taxes, local governing bodies establish annual budgets that include total tax revenues for their respective jurisdictions. Each year municipal, county, and

school district governing bodies notify the county tax boards of their budgetary requirements through submission of adopted budgets. The various budgets are totaled to represent the "amount to be raised by taxation" for each taxing jurisdiction and that total is billed to real property owners through their municipal tax bills.

The next step in the process is to determine the tax rate (sometimes known as the "millage rate") that, when applied to the total taxable assessed value of the real properties in the jurisdiction, will yield the budgeted amount of tax revenue. That tax rate is expressed as a dollar amount per \$100 of assessed value and is subsequently applied to each taxable real property to produce the individual taxpayer's property tax obligation for that year.

Thus, local budgets, assessed value and the availability of non-tax revenues are the prime determinants of each taxpayer's burden. The tax rate is annually adjusted to account for these factors. See *A Short and Simple Glimpse at the Property Tax in New Jersey*, New Jersey League of Municipalities, www.njslom.org/tax_brochure.html. APPENDIX 3.

The New Jersey property tax system is similar to that of many other states. The specific broad steps in determining tax are (i) classification, (ii) valuation, (iii) equalization, (iv) assessment, and (v) levy of tax.

Real property is first grouped into like kinds of properties called classes. For example, in New Jersey, Class 1 property is vacant land; Class 2 property is residential (four families or less); Class 3 is farm property; Class 4A is commercial property; Class 4B is industrial properties; and Class 4C is apartments (five families or more). New Jersey has grouped property into 18 classifications. N.J.A.C. 18:12-2.2

The property is then valued. There are many methods of valuation, and they vary from state to state. Among the methods used by New Jersey are the capitalization of income approach, the market or sales comparison approach, and the cost approach. These methods attempt to fix the "fair market value" of the property, the basis of the tax. *CCH New Jersey Tax Reporter*, ¶20-605, *New Jersey, Overview*.

The levy of tax, the final step, involves listing all the taxable property on a local district's tax rolls, together with its aggregate valuation, and determining what rate of tax is needed to meet the funding requirements of the district. *CCH New Jersey Tax Reporter*, ¶20-605, *New Jersey, Overview*

I. NEW JERSEY STANDARD FOR PROPERTY VALUATION FOR TAX ASSESSMENT

The New Jersey Constitution requires that all property be assessed uniformly "according to the same standard of value." N.J.Const. Art. VIII, § 1. "Taxpayers must be treated in a manner comparable to other similarly-situated taxpayers." Regent Care Center, Inc. v. Hackensack City, 362 N.J.Super. 403, 412 (App. Div. 2003) (citing Township of West Milford v. Van Decker, 120 N.J. 354, 361 (1990)).

N.J.S.A. 54:4-2.25 defines the standard of value as the true value of property. N.J.S.A. 54:4-23 describes true value as the price which, in the assessor's judgment, each parcel of real property "would sell for at a fair and bona fide sale by private contract on October 1 next preceding the date on which the assessor shall complete his assessments..." New Jersey courts have determined "full and fair value," "market value" and "true value" to be synonymous. See *How Property is Valued for Property Tax Purposes* (NJ Division of Taxation, Property Administration Pamphlet Rev. 1/08). APPENDIX 4.

II. NEW JERSEY EQUALIZATION PROCESS

When assessments are made by different persons, there is always room for variations in judgment. New Jersey has 21 counties comprised of 566 municipalities, each with its own local tax assessor. "Equalization" is the process of insuring that each property in every taxing district carries its fair, legal share of the burden of taxation. Equalization in property taxation ensures a just assessed value is placed on individual properties as compared to other properties within a taxing district and that true values assigned to entire municipalities are fair and just relative to other municipalities. Equalization seeks to establish equity both within municipal borders and within country borders. See *A Short and Simple Glimpse at the Property Tax in New Jersey*, New Jersey League of Municipalities, www.njslom.org/tax_brochure.html. APPENDIX 3.

All real property subject to assessment and taxation shall be assessed according to the same standard of value, which shall be the true value of such real property and the assessment shall be expressed in terms of the taxable value of such property, which taxable value shall be that percentage of true value as shall be established by each county board of taxation as the level of taxable value to be applied uniformly throughout the county. *N.J.S.A. 54:4-2.25*.

Each year the NJ Division of Taxation publishes a Table of Equalized Valuations showing the average ratio of assessed value to true value of real estate in each of the 566 local taxing districts. This table is certified to the State Commissioner of Education pursuant to N.J.S.A.54:1-35.1 for use in calculating and distributing state school aid. Equalized valuations are also the basis for measuring debt limits for local governmental units.

The ratio of assessed value to sales price is calculated for each usable sale. All sales are classified into four groups: vacant land, residential, farm, and other (*i.e.*, commercial, industrial and apartments). Sales prices and assessed values are gathered by each municipal tax assessor annually for submission to the New Jersey Property Tax System called MOD-IV. An overall district average weighted ratio is calculated for all classes as a weighted average of separate ratios calculated for each class. This district weighted ratio is applied against the assessed value of the district to determine aggregate fair market value ("true value"). True value for the current year is averaged with true value for the preceding year after adjustment for "added and omitted assessments. This averaging has the double advantage of avoiding abrupt changes in ratio from year to year and minimizing the influence of small sample sizes. See www.state.nj.us/treasury/taxation/lpt/fieldinf.shtm.

County taxes are apportioned among the municipalities within each county in proportion to the aggregate value of taxable property. In order to minimize the unfair distribution of the county tax burden resulting from the use of varying assessment ratios among the various

municipalities, each county tax administrator prepares a table of equalized valuations. N.J.S.A. 54:3-17. Although not required, the county normally adopts the table of equalized valuations annually issued by the Director of the Division of Taxation for use in the distribution of school aid funds. N.J.S.A. 54:1-35.1. The Director determines the average ratio of assessed to true value of real property for each taxing district as of the October 1 of the year preceding the tax year. N.J.S.A. 54:1-35(a). On or before April 1, the Director mails a certified list setting forth the average ratio for each taxing district to the county board of taxation and to the assessor and municipal clerk of each county. N.J.S.A. 54:1-35(b). The county board of taxation in each county meets annually on February 1 for the purpose of equalizing the assessments of property among the taxing districts in the county. N.J.S.A. 54:3-18.

The impact of the equalization ratio calculated by the Director of the Division of Taxation can be illustrated by the different equalization ratios applied to Princeton Borough and Princeton Township in 2009 before the recent revaluation. The ratio of assessed value to true value was 39.3% for the Borough and 48.06% for the Township. As a consequence, the combined county, school and municipal tax rate applied to assessed values was 4.29% (\$4.29 per \$100 of assessed value) for the Borough and 3.628% (\$3.628 per \$100 of assessed value) for the Township. The higher Borough tax rate adjusts for the Borough’s lower assessed value as a percentage of true value. Stated tax rates – the rates that are applied to assessed values – are set for each municipality within a taxing district at the level required to ensure that all municipalities in the district levy taxes at the same percentage of true value. The following table shows how equalization works in the Borough and the Township:

	<u>Borough</u>	<u>Township</u>
True Value	100	100
Assessed Value	39.3	48.1
Tax Rate	4.29%	3.63%
Tax (Rate X Assessed Value)	1.7	1.7
Tax as a % of True Value	1.7%	1.7%

The central point is that when the ratio of assessed value to true value for a municipality is lower than for other towns within a county, the tax rates used in towns with lower assessed values are increased so that the towns whose assessed values are closer to true value do not bear an excessive share of the tax burden of the county.

See 2009 Table of Equalized Values at www.state.nj.us/treasury/taxation/lpt/lptvalue.shtml and Table of General Tax Rates for the County of Mercer, at www.state.nj.us/treasury/taxation/lpt/taxrate.shtml. APPENDIX 5A AND 5B.

III. STATUTORY BASIS FOR REQUIRING REVALUATION

When property values rise, they begin to exceed assessed values and the ratio of the assessed to actual value begins to skew. Properties that are assessed at values closer to true value

begin to subsidize properties that are not. When a long time passes before that disparity in value is corrected, the resulting impact on the homeowner may be significant.

Revaluation is a procedure for bringing all properties to true value at the same time. See 35 N.J. Prac., Local Government Law § 16:16 (4th ed.). Revaluations must comply with regulations promulgated by the Director of the Division of Taxation and must be conducted by an outside contractor pursuant to a contract approved by the Director of the Division of Taxation and the County Board of Taxation. N.J.S.A. 54:1-35.35; N.J.S.A. 54:1-35.36. See also Schumar v. Borough of Bernardsville, 347 N.J. Super. 325 (App.Div. 2001).

Revaluations may be voluntarily undertaken by a municipality or the county board of taxation may order a revaluation with approval of the Director of the Division of Taxation. N.J.S.A. 54:1-35.36; N.J.A.C. 18:12A-1.14(a), (b). Whether the revaluation is necessary is determined pursuant to standards promulgated by the Director, Division of Taxation. N.J.S.A. 54:1-35.35; N.J.A.C. 18:12A-1.14(b)(1). If the county board of taxation determines that there is a need to order a district to revalue all real property, it must submit the proposed order to the Director, Division of Taxation, for approval and outline the reasons for revaluation. N.J.A.C. 18:12-1.14(a).

In a letter dated May 1, 2006, the Mercer County Board of Taxation stated that an order for the revaluation of Princeton Township for the tax year 2009 was formally approved. Among the reasons cited were: the ratio of assessed value to true value for the Township was 53.42 %; the one year weighted class 2 (i.e., residential property) ratio was 48.89%; the general coefficient of deviation was 12.42; 34% of the residential sales fell below the lower limit of the Chapter 123 corridor (common level range); and the last municipal wide revaluation was implemented in 1996. APPENDIX 6B.

In a letter dated May 26, 2006, the Mercer County Board of Taxation stated that an order for the revaluation of Princeton Borough for the tax year 2009 was formally approved. Among the reasons cited were: the ratio of assessed value to true value for the Borough was 51.13 %; the one year weighted class 2 (i.e., residential property) ratio was 46.26%; the general coefficient of deviation was 11.13; 40% of the residential sales fell below the lower limit of the Chapter 123 corridor (common level range); and the last municipal wide revaluation was implemented in 1996. APPENDIX 6A.

IV. STATUTORY FRAMEWORK FOR THE CONDUCT OF REVALUATIONS

Firms engaged in revaluing real property in a municipality must comply with administrative regulations setting standards for revaluation. See N.J.A.C. 18:12-4.8. Revaluation firms are the agents of the municipal tax assessor and all determinations by the firm must be submitted to the tax assessor and approved thereby. Id. “All determinations made by the firm shall be submitted to, and approved by, the municipal tax assessor.” Id. By statute, the municipal tax assessor “shall have the duty of assessing property for the purpose of general taxation.” N.J.S.A. 40A:9-148.1.

N.J.A.C. 18:12-4.8 sets forth rather detailed requirements for the revaluation firm to follow including, among others:

- that real property shall be valued in accordance with [N.J.S.A. 54:4-1](#) et seq.;
- that in determining taxable values of all real property, the firm shall employ the three approaches to value where applicable;
- to facilitate the use of the approaches to value the most recent edition of the Real Property Appraisal Manual for New Jersey Assessors shall be used. The use of any other appraisal manual as a basis for valuing real property shall require approval by the Director;
- the firm shall include real property identification material on properly labeled individual property record cards similar in form and content to those illustrated in the Real Property Appraisal Manual. Distinct property record cards for each of the four classifications of real property shall be provided;
- the real property identification material to be entered on property record cards shall include, but not necessarily be limited to:
 - A scaled sketch of the exterior building dimensions;
 - Notations of significant building components as ascertained from both an interior and exterior inspection;
 - Entries on the property record cards respecting the values of each lot and building including such items as age, construction, condition, depreciation, obsolescence, additions and deductions, appraised value, recent sales prices, rental data and all other pertinent information pertaining to the valuation of the property;
 - Where more than one property card is required in the description of a property, all cards shall be assembled in a standard file folder and properly labeled;
 - Each property record card shall identify the individual making the inspection and set forth the date when the interior inspection was made.
- the inspection of each property shall be performed in the following manner:
 - No fewer than three attempts shall be made to gain entry to each property;
 - The assessor shall be notified in writing of each failure to gain entry to a property and a list of all non-entries and reasons for same shall be provided to the assessor prior to the mailing of values.

Princeton Borough and Township solicited bids to perform the revaluation ordered by the Mercer County Board of Taxation. They received bids from Appraisal Systems, Inc. (ASI) and Certified Valuations, Inc. ASI was chosen and a contract dated October 7, 2008, was executed between ASI and the Borough and the Township. The cost to the Borough was \$280,010 and to the Township was \$509,500. The contract breaks down the cost for each line item (i.e. class of property) and for the residential property amounts to \$75 per property. APPENDIX 7.

IV. EXPLANATION OF THE REVALUATION PROCESS

Overview

An appraisal is an "opinion of value". Most people may have had experience with an appraisal done for a mortgage, for example. Different appraisers will inevitably come up with different appraisal values. The goal of an appraisal is to determine the most probable selling price. The appraiser will (i) gather information on the particular property, including measuring the footprint of any structures on the property; and (ii) search for comparable properties that have recently sold in an arm's length sale. Except in the case of a new condominium development, it is difficult to find identical properties -- accordingly an appraiser looks for similar properties and then compares the different amenities of the property being appraised with the comparable properties sold (e.g., finished basement in one and not the other).

Mass appraisals, while designed to get to the same end point as individual property appraisals, are meant to be a cost effective approach to valuing a large number of properties at the same time. Mass appraisal is the process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing. Properly administered, the development, construction, and use of a computer-assisted mass appraisal results in a valuation system characterized by accuracy, uniformity, equity, reliability, and low per-parcel costs. *Standard on Mass Appraisal of Real Property*, International Association of Assessing Officers, January 2011, p. 5. APPENDIX 8.

When conducting a mass appraisal, the appraisal firm first divides the municipality into "valuation neighborhoods". The appraisal firm will work with the assessor to identify neighborhoods that are reasonably homogeneous. Having identified specific neighborhoods, the appraisal firm then searches for comparable actual sales data within each neighborhood. Neighborhood boundaries can be reviewed every year by the assessor and can vary from year to year.

In November 2008, the municipal assessor created volunteer valuation committees to help determine appropriate neighborhood boundaries for revaluation purposes. The following people served as committee members:

Township: Caroline Clancy
William Enslin
Mary McManus
Robin Wallach

Borough: Caroline Clancy
Susan Gordon
Mary McManus
Scott Sipprelle
Jan Weinberg

Neither committee met as a group. Their recommendations were informal. While it is clear that the neighborhood boundaries used in the 2010 revaluation were established with the

help of the community, it is also clear that the establishment of appropriate neighborhoods is a matter of judgment and that reasonable people could differ about those judgments.

Specific Steps for Each Property

Appraisal firms employ field representatives to inspect every property in the municipality being assessed. As noted above, the statute requires that at least three attempts are made to gain entry to each property. Field representatives use these property inspections to complete a detailed checklist that forms the basis for developing accurate property record cards and vetting municipal records. Field representatives measure the outside of each building and those measurements form the basis of computer generated sketches of the buildings' footprints. Field representatives also count rooms and note things such as: whether the home is single family or multi-family; the number of stories; the design of the house; the type and material of the roof; the type of siding; the type of foundation; the type of interior finish; the type of flooring; whether there is a basement and whether it is finished; the type of heating system and the type of fuel it uses; the condition of the electrical system; whether there is an air conditioning system; the number of fireplaces, if any; the number of fixtures in each bathroom; the quality and condition of the kitchen; whether there is a finished attic; the existence of utilities; descriptions of the road and any curbing and sidewalks; and a description and classification of any accessory buildings. Field representatives also make judgments about the condition of the house, the quality of the neighborhood, the quality of the views, the positive and negative land adjustments, the general condition of the structures, and any diminution in value resulting from depreciation. In sum, the field representative must make numerous judgments in a relatively short time span, and reasonable people could easily differ about those judgments. The current system, with its limited opportunities for homeowners to correct flawed property descriptions, makes those judgments rather more likely to be controversial.

The final step is for field representatives' check lists to be entered into the appraisal firm's data base, generating property record cards that will ultimately identify values for the improvements on the property (i.e., the structures). In valuing those improvements, the appraisal firm must take into account both standard building costs and the depreciation rates set forth in the NJ Appraisal Manual.

Determination of Land Values

To determine land values, the appraisal firm would ideally refer only to sales of comparable parcels of raw (unimproved) land located within the municipality. However, in developed areas, the number of raw land sales is small. According to the Mercer County tax assessor, in Mercer County in 2010 there were only 15 sales of raw land out of over 121,000 line items. In Princeton Borough there were no sales of raw land in the past four years and in the Township there were only four raw land sales in the past four years. Because of the scarcity of land sales data, most appraisal firms use the "land extraction" method (also known as the "abstraction method"), to establish land values. In the land extraction method, improvement values are estimated using State mandated unit costs. Those estimated improvement values are then subtracted from sales prices of improved parcels to yield estimates of residual land values.

See *Standard on Mass Appraisal of Real Property*, International Association of Assessing Officers, January 2011, p. 13. APPENDIX 8.

The appraisal firm relies primarily on sales closed during the approximately two year period immediately preceding the revaluation, but may consider earlier sales if there were only a limited number of sales in the primary period. In reviewing a comparable sale, the appraisal firm uses the state approved Real Property Appraisal Manual, which provides standardized costs for different building components. Those standardized unit costs are then applied to the comparable property for the purpose of determining the value of its improvements (*i.e.*, structures). Once the value of improvements is determined, that value is subtracted from the sale price to arrive at the land value for that particular comparable sale. All of the comparable sales within a particular neighborhood are analyzed to arrive at a land formula for that neighborhood. Included in this formula is the "site value" for the neighborhood (*i.e.*, the base value of a minimum buildable lot). Minimum buildable lot sizes are specified in the zoning code.

In addition to "site value" in a particular neighborhood, the assessor establishes land and "excess land" values for the neighborhood. Land values would apply to land areas that are less than the typical lot size. Excess land may be best described as the amount of land in excess of the minimum buildable lot size.

Generally the value of the land does not increase proportionally with acreage. Rather, there is one value for the buildable lot (conveying the right to construct a building) and a lesser value for each additional fraction of an acre beyond the site value. The land formula is designed to provide site, land, and excess land values that are relatively constant within a particular neighborhood. The Mercer County tax administrator provided the following examples to illustrate the fact that land values do not increase proportionally with lot size beyond the typical lot size for a neighborhood.

Princeton Borough:

Property A

Block-26.01, Lot-1 Lot 56' X72' 4,032 SF

Sale Price - \$465,000

Assessed Value - \$439,000 Land Assessment - \$328,000

Site Value - \$310,000 Additional Acreage - \$18,000

Property B

Block-30.03, Lot - 64 Lot 40' X 246' 9,840 SF

Sale Price - \$526,000

Assessed Value - \$523,000 Land Assessment - \$346,000

Site Value - \$310,000 Additional Acreage - \$36,000

The above example shows that although Property B contains a lot that is more than twice the size of Property A, the additional land area added only \$18,000 to the assessed value of the land.

Princeton Township:

Property A

Block-701, Lot-9.73 Lot Size - .072 acre

Sale Price - \$515,000

Assessed Value - \$497,600 Land Assessment - \$253,500

Site Value - \$250,000 Additional Acreage - \$3,500

Property B

Block-701, Lot - 9.75 Lot Size -.134 acre

Sale Price - \$535,000

Assessed Value - \$532,400 Land Assessment - \$256,500

Site Value - \$250,000 Additional Acreage - \$6,500

Here again, although Property B contains a lot that is nearly twice the size of Property A, the additional land area added only \$3,000 to the assessment for the land.

The land value formulas for each neighborhood of the Borough and Township are set forth in APPENDIX 9A and 9B.

Identification of Comparables

The revaluation firm examined actual sales that closed from January 1, 2008 through September 30, 2009. Only some of those sales, however, constitute “usable sales”. Useable sales are transactions between unrelated parties dealing at arm's length. Such sales are known as fair market sales. Obvious non-fair market value sales, such as those between family members, are excluded as non-useable. The sales comparison approach estimates the value of a subject property by analyzing the sale prices of similar properties. When comparable sales data exists, the sales comparison approach is usually the preferred approach for estimating values for residential and other property types. See *Standard on Mass Appraisal of Real Property*, International Association of Assessing Officers, January 2011, p. 9. APPENDIX 8.

As mentioned above, the NJ Division of Taxation collects data on actual sales for the purpose of identifying equalization ratios for the state. In undertaking that responsibility, rules have been established to identify when sales should be considered usable sales. Under N.J.A.C.18:12-1.1, there are 33 enumerated categories of non-usable sales. One might conclude that, with 33 specified categories, there must be little left to judgment. However, category 26 provides that other sales can be excluded if, for some reason other than those specified in the enumerated categories, a sale is not deemed to be a transaction between a willing buyer, not compelled to buy, and a willing seller, not compelled to sell. In addition, N.J.A.C 18:12-1.1(b) provides that transfers falling within several of the enumerated categories should generally be excluded, but may be used if after full investigation it clearly appears that the transaction was a sale between a willing buyer, not compelled to buy, and a willing seller, not compelled to sell. APPENDIX 19. Accordingly, this is another area in the process which invests in the assessor a considerable amount of judgment – and, as with the areas previously discussed, reasonable people can easily differ as to those judgments.

The tax assessor's decision of whether a sale is useable is subject review by the NJ Division of Taxation. When a deed conveying property is recorded, a record is automatically sent to the Mercer County tax assessor, who then generates a standard form SR-1A that is sent to the municipal tax assessor. The municipal assessor investigates the sale and indicates whether it is a usable sale. If it is determined to be an unusable sale, then the unusable category number is added to Form SR-1A. This information is sent to the NJ Division of Taxation (the "Division") where it is reviewed. Occasionally, the Division will reject the municipal assessor's determination as an unusable sale if the Division has information indicating that the municipal assessor's determination is incorrect. The Division would typically discuss the reasons for the change with the municipal assessor. An example of a change at the Division level would be an estate sale. The municipal assessor must mark an estate sale as unusable but it is possible that the Division could, after gathering additional information, conclude that the sale is usable. In addition, the municipal assessor can file an amended SR-1A to change the status of a sale based on information received subsequent to the original submission of Form SR-1A to the Division.

Taxpayer Review Procedure

Pursuant to Article VI of its contract with the Princetons, ASI mailed written notices, approved by the assessor, indicating the appraised values of each property and advising the homeowners of their right to attend individual reviews. Informal reviews were held at a designated location within the municipality and ASI was required to schedule sufficient time to fully review and discuss the proposed assessments with taxpayers. Following those meetings, ASI often suggested revisions, which were sent to the municipal assessor for approval. According to ASI, approximately 15% of the taxpayers took advantage of the review process, which is typical for a municipal revaluation.

V. PROPERTY TAX APPEALS PROCESS

Tax appeals must be filed annually on or before April 1st or within 45 days of the bulk mailing of the Assessment Notices. Once filed, a hearing before the County Tax Board is scheduled. The Tax Board consists of members appointed by the Governor. Individual taxpayers may represent themselves. The taxing district is represented by the municipal attorney. The assessor or an appraiser may appear at the hearing as an expert witness.

If the taxpayer intends to rely on expert testimony at the appeals hearing, the taxpayer is required to supply a copy of the appraisal report to the assessor and each County Tax Board member at least seven days before the scheduled hearing. The appraiser who completes the report must be available at the hearing to testify and to afford the municipality an opportunity to cross-examine him.

If the assessor, the municipal attorney, and the taxpayer agree to settle, it may not be necessary for the taxpayer to attend a hearing. Settlement stipulations, however, must be submitted to and approved by the County Tax Board. Should the County Tax Board disapprove the stipulation, a formal appeal hearing would then be scheduled. Tax appeal hearings are generally held within three months of the April 1 filing deadline.

At the hearing the burden is on the taxpayer to prove that the assessment is in error, unreasonable, excessive, or discriminatory. The taxpayer must suggest a more appropriate value by showing the Tax Board the market value of the property as of October 1 of the pretax year. Appeals will not be heard unless all taxes and municipal charges, up to and including the first quarter of the current tax year, have previously been paid in full.

The taxpayer must be persuasive and present credible evidence. Credible evidence is supported by fact, not assumptions or beliefs. Photographs of both the subject property (the property under appeal) and comparable properties are useful. Factual evidence is required to support a taxpayer's claim of special circumstances. For example, if the property cannot be further developed, e.g., because it is subject to a conservation easement, supporting evidence must be provided. In the context of an appeal, taxpayers can review property record cards at the municipal assessor's office.

The most credible evidence is recent sales data for other properties of a similar size and type in the same neighborhood as the subject property. When using comparable sales, a listing of three to five sales should be attached to the appeal at the time of filing. The municipal assessor and the county tax board must each receive copies of the designated comparable sales at least seven days prior to the date of the hearing. Comparable sales data received after the deadline is inadmissible at the hearing.

Sales ratio forms, called SR-1A's (available at the county tax board) and deeds (available at the county clerk's office) are public records and can be used to identify comparable sales and their significant characteristics. "Comparable" means that most of the characteristics of the subject property and the designated comparable property are similar. Appellants should be able to give full property descriptions and be knowledgeable of the conditions, including financing, of the cited sales. Some characteristics that would make a property comparable are: sale date close in time, similar square footage of living area (measured from the exterior), similar lot size, proximity to the subject property, same zoning use, and similar age, construction and style of structure.

Owners of rental properties must supply an income statement when filing an appeal and must use special forms provided by the assessor. Net income generated by a property has a direct bearing on the ability to market the property, and therefore on its value.

By law, the county tax board must hear and determine all appeals within three months of the last day for filing appeals, unless the NJ Director of the Taxation Division grants an extension. Judgments are issued shortly thereafter.

A judgment of the tax board may be appealed to the Tax Court of New Jersey. A taxpayer has 45 days from the date the tax board's judgment was mailed. Property assessed for more than \$1,000,000 may be appealed directly to the Tax Court. Filing fees are \$5 for an assessed valuation of less than \$150,000; \$25 for assessed valuations of \$150,000 but less than \$500,000; \$100 for assessed valuations of \$500,000 but less than \$1,000,000; and \$150 for assessed valuations of \$1,000,000 or more. See *A Guide to Tax Appeal Hearings*, www.state.nj.us/treasury/taxation/. APPENDIX 10.

For an assessed value to be considered excessive or discriminatory, the appellant must prove that the assessment does not fairly represent either the True Market Value Standard or the Common Level Range Standard.

The “True Market Value Standard” refers to the requirement that, following a revaluation, all assessments in the municipality must be set at 100% of true market value as determined on October 1 of the previous year. The sale dates of any sales presented as comparable sales must therefore precede the October 1 effective date of the reassessment.

The “Common Level Range Standard” adjusts for later deviations from true market value. After a revaluation, external factors such as inflation, recession, appreciation, and depreciation cause values to increase or decrease at varying rates. Other factors such as physical deterioration may change property values. If assessments are not adjusted annually, a deviation from 100% of true market value can occur.

In an effort to measure and adjust for such deviations, the NJ Division of Taxation, with local assessors assisting, annually conducts a statewide fiscal year sales survey, investigating most real property transfers. Sale value is compared to assessed value individually to determine an average level of assessment in a municipality. An average ratio of assessed value to true value (the “Director’s Ratio”) is developed from all bona fide, arm’s length property sales in each community. In any year, except the year a revaluation is implemented, the common level of assessment is the average ratio (the “Director’s Ratio”) of the district in which a particular property is situated, and is used by the County Tax Board to determine the fairness of its assessment. See *A Guide to Tax Appeal Hearings*, www.state.nj.us/treasury/taxation/.APPENDIX 10. See also the discussion of the New Jersey Equalization Process in Section II, above.

In 1973, the NJ Legislature adopted a formula known as Chapter 123 to test the fairness of an assessment. Once the county tax board determines a property’s true market value during an appeal, the board is required to compare true market value to assessed value. If the ratio of assessed value to true value exceeds the average ratio (the “Director’s Ratio”) by 15%, the assessment is reduced to the common level – i.e., the product of the Director’s Ratio and true value.

Example

Director’s Ratio = 85%

Common Level Range = 72.25% - 97.75%

True Value = \$95,000

Assessed Value = \$94,000

Ratio = 98.95% ($\$94,000 \div \$95,000$)

Judgment = Reduction in assessed value

New Assessment = \$80,750 ($\$95,000$ or True Value x 85% or the Director’s Ratio)

Explanation: 98.95% (the Ratio of Assessed Value to True Value) is greater than the upper limit of the Common Level Range

However, if the assessment falls within the “common level range”, no adjustment is made.

Example

Director's Ratio = 85%

Common Level Range = 72.25% - 97.75%

True Value = \$95,000

Assessed Value = \$90,000

Ratio = 94.74% ($\$90,000 \div \$95,000$)

Judgment = No change in assessed value

Explanation: 94.74% is less than the upper limit of the Common Level Range

See *A Guide to Tax Appeal Hearings*, www.state.nj.us/treasury/taxation/. APPENDIX 10.

There is one exception to the Common Level Range Standard that is particularly significant in the immediate aftermath of a reassessment. Assessed value can never be higher than true value. If the upper limit of the Common Level Range exceeds 100%, then the effective upper limit will be true market value. The true value cap overrides the 15% leeway otherwise permitted to an assessor. Below are examples for the Township and Borough using the published ratios for 2011.

Princeton Township

Example A

Director's Ratio = 95.33%

Common Level Range = 81.03%-109.63% (limited to 100%)

True Value = \$95,000

Assessed Value = \$96,000

Ratio = 101.05% ($\$96,000 \div \$95,000$)

Judgment = Reduction in assessed value

New Assessment = \$90,563 ($\$95,000 \times 95.33\%$)

Explanation: Since Assessed Value exceeds 100% of True Value, the assessment will be reduced to the product of True Value and the Director's Ratio – notwithstanding the fact of an upper limit of the Common Level Range that is set at 109.63%.

Example B

Director's Ratio = 95.33%

Common Level Range = 81.03%-109.63% (limited to 100%)

True Value = \$95,000

Assessment = \$94,000

Ratio = 98.95% ($\$94,000 \div \$95,000$)

Judgment = No change in assessed value

Explanation: Since Assessed Value is less than 100% of True Value, and since the upper limit of the Common Level Range is greater than the Ratio (Assessed Valued divided by True Value), the Assessed Value will remain unchanged.

Princeton Borough

Example A

Director's Ratio = 89.95%

Common Level Range = 76.46%-103.44% (limited to 100%)

True Value = \$95,000

Assessed Value = \$96,000

Ratio = 101.05% ($\$96,000 \div \$95,000$)

Judgment = Reduction in assessed value

New Assessment = \$85,452 ($\$95,000 \times 89.95\%$)

Explanation: Since Assessed Value exceeds 100% of True Value, the assessment will be reduced to the product of True Value and the Director's Ratio – notwithstanding the fact of an upper limit of the Common Level Range that is set at 103.44%.

Example B

Director's Ratio = 95.33%

Common Level Range = 76.46%-103.44% (limited to 100%)

True Value = \$95,000

Assessment = \$94,000

Ratio = 98.95% ($\$94,000 \div \$95,000$)

Judgment = No change in assessed value

Explanation: Since Assessed Value is less than 100% of True Value, and since the upper limit of the Common Level Range is greater than the Ratio (Assessed Valued divided by True Value), the Assessed Value will remain unchanged.

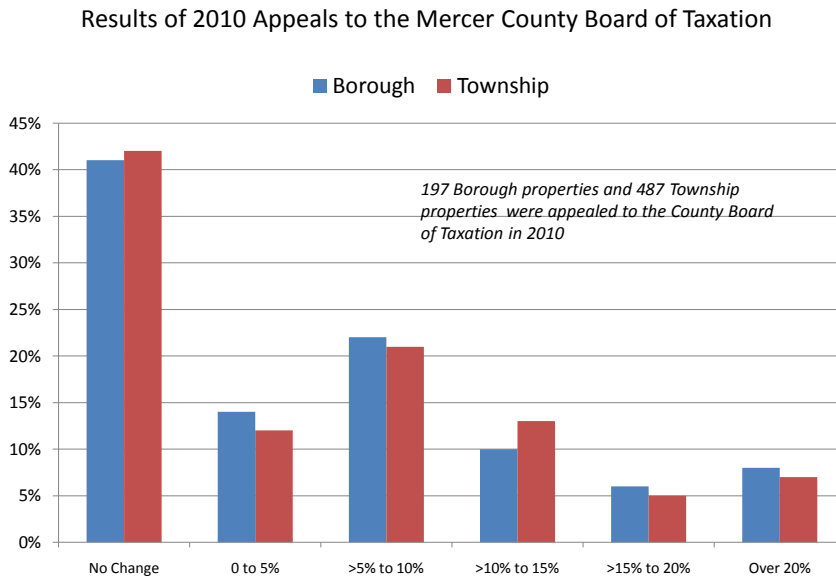
Observations

In pursuing appeals, taxpayers will be required to produce comparables demonstrating the fair market value of the entire property. *In William J. Brown, Jr. and Irene E. Brown v. Borough of Glen Rock*, Superior Court of New Jersey, Appellate Division, ¶400-718, (Jan. 3, 2001), the court stated that “the comparable sales analysis offered by plaintiff failed to provide any evidence of the market value of the subject property, since it addressed only the value of the land. It is well established that the division of an assessment between land and improvements is an administrative action that does not create two separately contestable assessments. *In re Appeals of Kents 2124 Atlantic Avenue, Inc.* 34 N.J. 21, 33, 34 (1961); *National Westminster Bank v. Brigantine City*, 11 N.J. Tax 502 (Tax 1991). A taxpayer seeking to establish a taxable value lower than the assessment must demonstrate the value of the entire property, not merely the value of either land or improvement.”

During 2010, 487 Princeton Township property assessments were appealed to the county tax board. The number of property assessments appealed represented 8.7% of the total number of properties of the Township. Of those appeals, 204 resulted in judgments with no change in the assessed value and 275 appeals resulted in reductions in the assessed values averaging 11.7%. APPENDIX 11. Of the 275 assessments that were reduced in the appeals process, 182 were agreed prior to the hearing pursuant to a signed settlement between the town and the taxpayer.

For the Borough, 197 property assessments were appealed to the county tax board. The number of property assessments appealed represented 7.7% of the total properties of the

Borough. Of those appeals, 81 resulted in judgments with no change in the assessed value and 116 appeals resulted in reduction in the assessed values averaging 11.7%. APPENDIX 12. Of the 116 assessments that were reduced in the appeals process, 86 were agreed prior to the hearing pursuant to a signed settlement between the town and the taxpayer. The chart appearing below shows these results in graphic form.



As noted above, 56% of the properties appealed in the Township and 59% of the properties appealed in the Borough resulted in reduced assessments. Set forth below is the county-wide percentage of reductions granted for the last several appeal years:

2010	62.74%
2009	66.19%
2007	80.67%
2006	48.15%

The 2010 appeals resulted in a total reduction in assessed value of \$33.1 million for the Township, representing a reduction of 8% in the assessed values of the properties whose values were appealed. The appeals process resulted in a total reduction in assessed value of \$8.9 million for the Borough, representing a reduction of 4%. Set forth below is a table comparing the appeals experience of other Mercer County municipalities in the year following a revaluation.

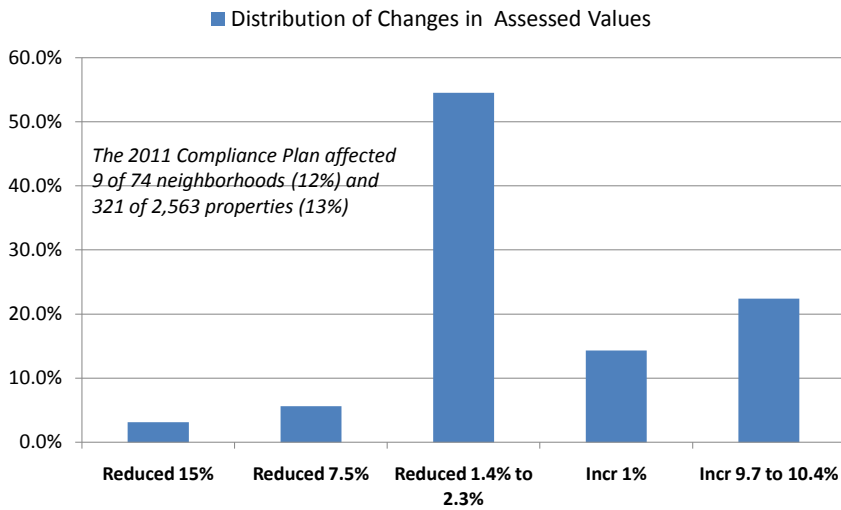
	<u>Assessed Value</u>	<u>Judged Value</u>	<u>Change in Value</u>	<u>% Change</u>
Princeton Township	418,450,700	385,345,200	(33,105,500)	-8%
Princeton Borough	201,939,700	193,069,000	(8,870,700)	-4%
Hopewell Township	280,862,600	264,229,900	(16,632,700)	-6%
West Windsor	766,493,660	791,243,660	24,750,000	3%
Robbinsville	290,967,300	253,750,600	(37,216,700)	-13%
East Windsor	87,954,300	86,492,600	(1,461,700)	-2%
Hopewell Borough	10,372,300	10,051,300	(321,000)	-3%
Pennington	23,363,200	22,418,400	(944,800)	-4%
Hightstown	22,535,000	21,805,100	(729,900)	-3%

VI. COMPLIANCE PLAN

There are mechanisms available to the assessor to change assessments, including, compliance plans and assessment maintenance programs. A compliance plan allows the assessor to change the assessments of many properties in the neighborhood, provided that less than 50% of the properties are changed. There is no additional inspection requirement but the Mercer County tax assessor and Division must approve the municipal assessor's compliance plan N.J.S.A. 54:4-23. Princeton's municipal assessor filed compliance plans for the Borough and the Township and the compliance plans were approved by the Mercer County Tax Assessor on February 18, 2011. APPENDIX 14A, 14B, 15A and 15B.

The Borough compliance plan proposed changes for nine neighborhoods representing 12.2% of the 74 neighborhoods in the Borough. The proposed changes affected 321 properties, representing 12.5% of the 2,563 properties in the Borough. The Township compliance plan proposed changes for 22 neighborhoods representing 18.2% of the 121 neighborhoods in the Township. The proposed changes affected 1,177 properties, representing 21.1% of the 5,590 properties in the Township. APPENDIX 13. The distribution of changes in assessed values in the Borough and Township are illustrated in the bar charts below and the changes by neighborhood are shown in the schedules below the charts. The vertical bar represents the percentage of the properties changed in the range described below the bar. For example, in the Borough, 55% of the properties changed were reduced between 1.4% to 2.3%.

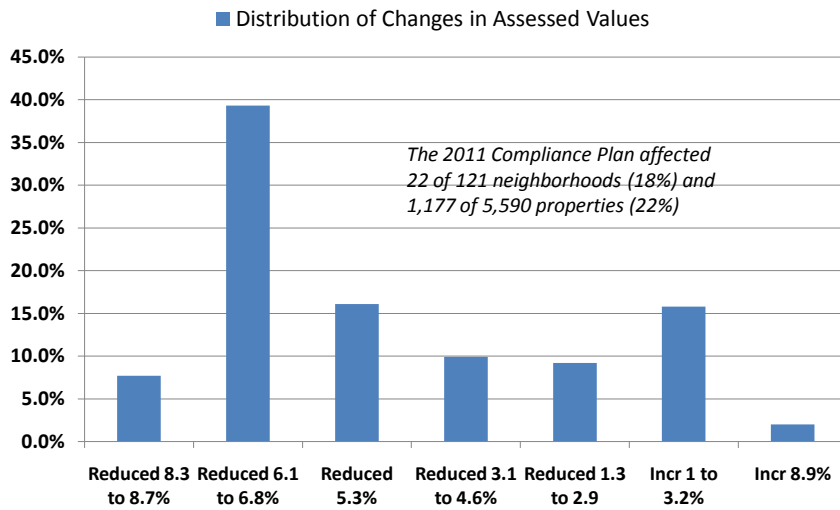
Impact of 2011 Borough Compliance Plan



<u>Borough:</u>	<u>Neighborhood</u>	<u>% Change ²</u>
	107 - Bayard Lane condos	15.000% Reduction
	202 - Bank Street	1.375% Reduction
	206 - Jefferson/Hawthorne	2.270% Reduction
	229 - Markham condos	7.530% Reduction
	232 - Palmer Square condos (large) 11 our of 232	1.940% Reduction
	304- Lover's Lane condos	1.360% Reduction
	203 - John Witherspoon	.930% Increase
	207 - Hamilton (east of Harrison)	10.400% Increase
	216 - Scott Lane, Harriet, Bainbridge	9.700% Increase

² Percentage changes are neighborhood averages

Impact of 2011 Township Compliance Plan



Township:

	<u>% Change</u> ³
103 - Ridgeview Road	3.600% Reduction
114 - Ridgeview Circle	4.100% Reduction
126 - Mt. Avenue/Quarry Lane	2.290% Reduction
128 - Bayard Lane	3.500% Reduction
138 - Hunt Drive	3.800% Reduction
139 - Lambert, Audubon	2.950% Reduction
140 - Brooks Bend	4.600% Reduction
141 - Cradle Rock	4.300% Reduction
143 - Pheasant Hill	8.300% Reduction
146 - Rosedale Road	3.100% Reduction
149 - Farrand Road	6.800% Reduction
150 - Townhomes	3.200% Reduction
152 - Rt. 206, West of Boro	1.600% Reduction
212 - Autumn Hill	1.300% Reduction
215 - Cuyler Road	5.300% Reduction
216 - North Harrison/Ewing	1.270% Reduction
217 - Loomis, Hickory Cts.	8.900% Reduction
227 - Maybury Hill	6.100% Reduction
404 - Western/Southern Ways	8.700% Reduction
406 - Riverside Drive	6.700% Reduction
219 - Birch Avenue	1.040% Increase
229 - Dodds Lane	3.200% Increase

³ Percentage changes are neighborhood averages

VII. RESULTS OF ACTUAL SALES SINCE THE REVALUATION

Coefficient of Deviation

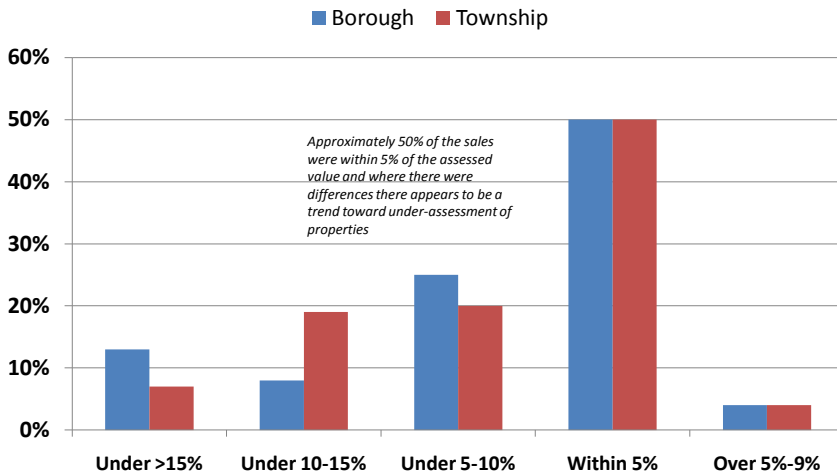
The coefficient of deviation is a measure of uniformity among individual assessments. The coefficient of deviation is calculated by subtracting (a) each ratio of assessed value compared to actual sales price, from (b) the average ratio of assessed value to actual sales price. Each deviation is then totaled without regard to sign (whether plus or minus) and divided by the total number of sales. The Mercer County tax administrator pointed out that there is no better test for the accuracy of an assessment process and that the county uses that measure to determine whether to order a town to perform a revaluation. A high coefficient of deviation is an indication of a lack of uniformity. When the coefficient of deviation gets too high, it indicates a need for a revaluation. As described above, the Division and the Mercer County tax administrator monitor the ratio of assessed values to actual sales in the equalization process. If the ratio is close to 100%, that is ideal, but of course property values change over time. If all of the properties in a municipality are assessed at approximately the same assessed value to actual value ratio then taxes are uniformly assessed. However, there could be cases where the average ratio is close to 100% for the entire municipality but the individual data points are widely dispersed—making it clear that there is a lack of uniformity within the municipality. Such a lack of uniformity would be signaled by a high coefficient of deviation.

For example, in a sample of two sales, where one sale shows a ratio of assessed value to sales price of 125% and the other shows a ratio of assessed value to sales price of 75%, the average would be 100% and valuations would appear to be uniform. The coefficient of deviation, however, would highlight the deviations from the average. In this example, the difference from the average of 100% would be a total of 50% for both sales, divided by 2, resulting in a coefficient of deviation of 25%. According to the Mercer County tax administrator, a coefficient of deviation of less than 7% is considered to represent a high degree of uniformity within a municipality. A coefficient of deviation above 15% generally denotes lack of uniformity in assessments. N.J.A.C. 18:12A-1.14(b)(iv).

A review of the data for the first year after the revaluation (i.e., 10/1/09 thru 9/30/10) shows that the ratios of assessed values to actual sales average 94.5 % in the Borough and 95.3% in the Township. The corresponding coefficients of deviation were 5.8% for the Borough and 5.5% for the Township, suggesting that the new assessments are tracking actual sales prices fairly closely. APENDIX 16A, 16B, 17A and 17B.

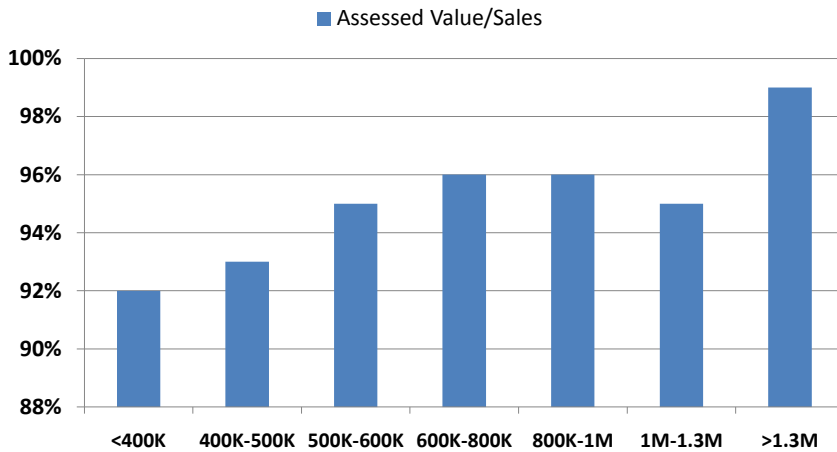
Below are charts showing the results of actual sales since the revaluation. The average ratios and the coefficients of deviation appear to be within acceptable limits. The caveat, however, is that the sample sizes are small. The number of actual sales that closed between 10/1/09 and 9/30/10 represented only 1.7% of the properties in the Borough and only 2.3% of the properties in the Township.

Distribution of Differences Between Assessed Values and Actual Sales Price
 (Based on Sales between 10/1/09-9/30/10)



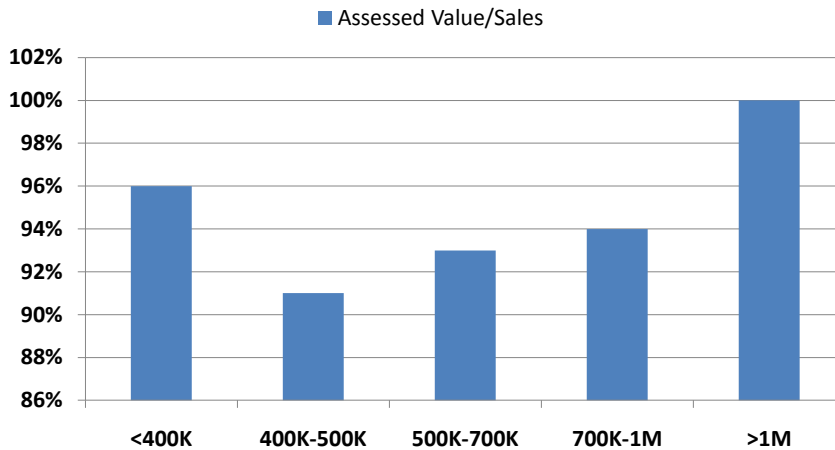
Since the revaluation, there has been much discussion about the disparate impact of the revaluation on properties depending on their value. The bar charts presented below show, for various sales price ranges, the ratio of assessed values to actual sales prices for sales closing after the revaluation for the period between 10/1/09 to 9/30/10.

Township--Ratio of Assessed Value to Actual Sales
 (Based on Sales between 10/1/09-9/30/10)



Borough--Ratio of Assessed Value to Actual Sales

(Based on Sales between 10/1/09-9/30/10)



Observations Regarding Revaluation Process

It is clear that every step of a revaluation requires numerous judgment calls. It is also clear that reasonable people might differ in the judgments made. At \$75 per residential property (the fee paid to ASI for the recent mass assessment), it is not reasonable to expect that significant time will be spent in analyzing individual properties. In addition, the significant decline in housing market activity over the past several years resulted in significantly fewer closed sales, significantly fewer usable sales, and therefore significantly fewer useable data points. In fact, many neighborhoods in the Borough and Township had less than three comparable sales within the relevant time period. In light of the above, it is essential that there be efficient and effective avenues to review assessments on individual properties that may be based upon incorrect assumptions or be out of line with the market.

One such avenue is a "Compliance Plan" which the assessor filed for the Borough and the Township in February 2011, as described above. Also noted above are the results of actual sales compared to assessed values since the revaluation for the Borough and Township. While the statistics are generally reassuring, even when segmented by property value, the results are based on a relatively small sample of the total properties in the Borough and Township and therefore do not obviate the need for a continuing, efficient and effective process to review assessments on individual properties.

The appeals process, which can be intimidating for the individual taxpayer, should be made more readily accessible to the individual property owner. The assessor should provide a current list of all actual sales by neighborhood on a continuing basis on the Borough and Township websites so that individual taxpayers can easily find comparables to prepare for a tax appeal.

B. ANALYSIS OF OPTIONS TO MITIGATE EFFECTS OF REVALUATION

The Commission began its work by reviewing the mechanisms cited by the Borough's legal counsel as being currently available to mitigate the effects of the revaluation.⁴ The committee then broadened its review to encompass new programs, new assessment practices, and legislation in force in other states.

1. Reducing Interest Rates on Delinquent Property Taxes

New Jersey law provides that, in the absence of local law to the contrary:

- property taxes shall be paid in quarterly installments by the due date;
- payments shall not be considered delinquent until a 10-day grace period has lapsed;
- delinquent tax payments must bear interest at prescribed rates;
- the rate of interest may not exceed 8% per annum on the first \$1,500 due;
- the rate of interest may not exceed 18% per annum on delinquent balances in excess of \$1,500; and
- interest will accrue from the original due date until the date payment is received.

However, New Jersey law also provides that interest rates levied on delinquent property tax balances, and the related grace periods, may be reduced by resolution of the levying municipality. During August, 2010, both Princeton Borough and Princeton Township adopted resolutions that reduced the rates of interest charged on delinquent property tax balances.

The following table compares the maximum grace periods and rates of interest permitted by the State of New Jersey to the grace periods and interest rates specified in the August resolutions:

	<u>State of NJ</u>	<u>Princeton Borough</u>	<u>Princeton Township</u>
Grace Period	10 Days	5 Days	10 Days
Interest Rate: First \$1,500	8.00%	6.00%	8.00%
> \$1,500	18.00%	18.00%	18.00% ⁵

⁴ See Memorandum of Hill Wallack, LLP, included in APPENDIX 2.

⁵ Princeton Township suspended its 18.00% interest charge on delinquent balances in excess of \$1,500, but only during the 3rd and 4th quarters of 2010.

Interest compounds annually on delinquent balances. Both Princeton Borough and Princeton Township levy an additional 6.00% penalty on delinquent balances in excess of \$10,000 as of December 31 in any calendar year.

The Commission notes that reduced interest rates are of little benefit to real property owners with mortgages, since mortgage lenders usually require borrowers to pay their property taxes when due. Failure to make monthly tax escrow payments when due, or, in the absence of an escrow requirement, failure to pay property taxes when due constitutes a payment default and enables a lender to initiate foreclosure proceedings – whether the rate of interest charged by the levying municipality is 18% or 0%. For mortgaged properties, the interest rate on delinquent tax payments is therefore moot.

Notwithstanding the inability of many mortgagors to benefit from reduced interest rates, the Commission believes the Borough and Township might reasonably consider making their interest rates and grace period consistent with each other. Both municipalities might also consider waiving interest and penalties for income-qualified residents suffering financial hardship as a result of the new assessed values.

2. Phase-in of Tax Increases

Under New Jersey law, and provided certain criteria are met, a municipality is permitted to phase in property tax increases arising from a revaluation over a three-year period for certain “eligible properties”. “Eligible property” is defined as any parcel containing a structure or building “located in an area declared in need of rehabilitation”. The phrase “in need of rehabilitation” encompasses: (i) a municipality or portion thereof in which at least 60% of the housing units are at least 30 years of age; (ii) an area which has been determined to be an area in need of rehabilitation pursuant to the “Local Redevelopment and Housing Law”; (iii) a blighted area which meets certain statutory requirements; or (iv) any area in need of rehabilitation as defined by statute. A municipality implementing a revaluation phase-in program must conduct a “reevaluation management analysis” prior to using the revaluation as a basis for tax billing.

Phasing in tax increases did not appear viable to the Commission. Since the deferral cannot be based upon need, any deferred taxes would be borne by all property owners in the form of higher tax levies. Property owners whose tax burdens have decreased would object to any resolution that deferred the benefit of those reductions, and would also oppose the shift in tax burden that would result from a decision to phase in only tax increases. Further, many property owners would object to having their properties characterized as being “in need of rehabilitation”, in part because of the potential adverse effects on the market values of their properties. The Commission concluded that a phase-in program would be cost prohibitive. The issue is to a large extent moot since the deadline for undertaking a phase-in plan has passed and an extension would require an amendment to the authorizing statute. See Memorandum of Law, Hill Wallack LLP, attached hereto as Appendix 2.

3. Review of Frequency of Valuations

More frequent real property valuations might reduce the likelihood of the pronounced changes in tax burdens experienced by many residents in the wake of the recent revaluation. As noted by Hill Wallack, LLP, three mechanisms are available for altering the frequency of property valuations: Assessment Maintenance, District-Wide Reassessment and Voluntary Revaluation. Each of these alternatives is discussed below.

(i). Assessment Maintenance

The municipal assessor has the authority to amend assessed values of properties in areas in which valuations are found to be problematic if the finding is based up objective criteria – but only if the changes alter the values of fewer than 50% of the properties in the assessor’s tax book. In undertaking Assessment Maintenance, the assessor must be careful of running afoul of the prohibition on “Spot assessment” (an arbitrary focus on only selected taxpayers).

In November 2010, the municipal assessor initiated Assessment Maintenance plans for the Borough and the Township. The new assessments are not based on re-inspections. They are based on a review of recent sales, recent appeals, and recent listings.⁶ Please see the discussion in Section VI of this report describing the compliance plans submitted by the assessor in February of 2011.

(ii). District-Wide Reassessment

The municipal assessor has the authority to request a District-Wide Reassessment if he believes that more than 50% of a municipality’s properties should be re-assessed.

Before undertaking a District Wide Reassessment, the assessor must (i) determine that a majority of the assessments need to be altered; (ii) notify the mayor and governing body, the Division of Taxation, the County Board of Taxation and the County Tax Administrator of the basis for his determination that the reassessment is needed; (iii) apply to the County Board and the Director of the Division of Taxation for permission to conduct the reassessment; and (iv) obtain approval from the County Board and the Director of the Division of Taxation.

The municipal assessor did not undertake a District-Wide Reassessment in 2011 because he has determined that fewer than 50% of line item properties require reassessment

⁶ For example, if a large number of properties were successfully appealed in a single tax neighborhood, the assessor might use Assessment Maintenance to grant relief to the entire neighborhood, including properties for which no appeal was filed.

(iii). Voluntary Revaluation.

The Borough and Township may voluntarily perform a second revaluation. Such a revaluation would be expensive, however, and is not certain to provide a result that is any less controversial

(iv) Reassessment Program

The Borough and the Township could also decide to begin a Reassessment Program in which district wide reassessments are done annually or at defined regular intervals. The reassessments could be performed by the municipal assessor and his staff. There would be no further need for outside contractors. Nor would there be any further reliance upon mass appraisal techniques.

Were the Princetons to adopt a Reassessment Program, under current law 25% of the properties in each municipality would be inspected each year – with the result that the data recorded on residents’ property cards would be likely to become more current. It is important to note, however, that each property would be reassessed each year, whether or not it had been inspected in that particular year. Legislation is currently pending which would extend the inspection cycle from four years to eight years, with the result that a Reassessment Program would become less costly. The Commission supports this legislation.

A Reassessment Program would have the effect of minimizing the likelihood of significant year-to-year valuation changes, but would entail some additional costs, which may include the costs of supplementing the assessor’s staff.

Increasing the frequency of property reassessments, whether by Assessment Maintenance, District-Wide Reassessment, Voluntary Revaluation, or Reassessment Program has the likely benefit of making assessments generally more accurate, reducing costs associated with property tax reviews and appeals, keeping taxpayers better informed of their assessed values, and enabling taxpayers to be better prepared to address perceived inaccuracies. Low- and moderate-income taxpayers, however, might find their property tax burdens more debilitating in that relative increases in value would trigger immediate increases in tax bills, whereas under the current system the relative tax burdens established by the 2010 revaluation will remain relatively constant for a period of 10 or 15 years – even if individual neighborhoods were to appreciate at sharply higher rates than the municipal average.

4. Affordable Housing Trust Fund – Grants and Financing

The municipal Affordable House Trust Fund (“AHTF”) can make grants of up to \$30,000 to help qualified low- and moderate-income homeowners. The “market to affordable housing” program allows municipalities to offer tax relief to low- and moderate-income homeowners, both through grants and by permanently lowering the property taxes due on their residences. The mechanism for lowering tax bills is a 30-year

deed restriction that prohibits the sale of the property at a price in excess of the price that a qualifying low- or moderate-income buyer is deemed able to afford. Deed-restricted properties must be re-assessed at the deed-restricted value (currently estimated to be in the \$100,000 to \$150,000 range). The owners of those properties then pay property taxes only on the deed-restricted value.

Participating property owners receive substantial reductions in their property tax burdens. In exchange they agree to have the resale value of their properties capped at the price deemed by state government to be affordable for low- and moderate-income buyers. Once the deed restriction is in place, the income of the participating property owner can rise without triggering an increase in value or property taxes, but the property cannot subsequently pass through an estate to a family member who is not income eligible.

The municipality also benefits from the exchange. The stock of affordable housing units, as defined by statute, increases without the expense and controversy of new construction. In addition, the program enables long time residents to stay in their homes even when their incomes are no longer sufficient to pay their share of the property taxes required to support their community's public expenditures.

AHTF funds are currently limited. There are also procedural and administrative requirements that the Borough and Township must satisfy as a condition of making AHTF funds available to residents. Though AHTF grants and loans are neither broadly available nor broadly appealing, the Commission believes that they represent an option the Borough and Township should consider making available to informed and qualified residents.

5. Conventional Financing

Various sources of private financing are available to most homeowners. The most common are first mortgage loans and home equity loans. Less common are reverse mortgages, which might be suitable solutions for elderly residents with fixed incomes and considerable equity in their homes.

Today's interest rates make home mortgages attractive, but the rules governing conventional mortgages have recently been made much more stringent. Appraisals, too, have become more conservative. The combination of much more conservative appraisals, reduced loan to value ratios, more restrictive income requirements, and rigorous documentation requirements can make the application process long, tedious, expensive, and uncertain.

Legal counsel has advised that it is improper for municipal governing bodies to advocate specific private financing options. The Commission agrees, but suggests that some residents might benefit from clear descriptions of some of the more readily available or widely discussed financing techniques. Given the difficulty of navigating today's application process, there might also be some benefit to a program intended to

provide information to interested homeowners regarding where they might be able to find assistance with their applications.

6. Subsidized Loans – Private Capital Sources

The Commission discussed the establishment of a privately funded program providing qualifying taxpayers with low cost, medium-or long-term financing of property tax increases. The source of funds could perhaps be private donations. Princeton University could be a potentially significant donor, as could developers and other local businesses or charities.⁷ Such a program might be administered by a foundation or nonprofit entity, with the municipalities perhaps serving as an informational and referral resource. Any such venture would need to establish criteria for eligibility, as well as standardize interest rates and repayment terms. The threshold challenges are the ability to identify interested and acceptable private sources of funding, as well as individuals within the community who are willing to commit the time to further pursue the establishment of such a program.

7. Bond Funded Loan Programs – Municipal Issuer

As an alternative to private sources of financing, the Commission evaluated a number of options through which the Borough and Township might provide financial assistance to property owners faced with significant tax increases. The most obvious source of funds would public borrowings, which are accomplished most efficiently through the sale of bonds.

Public financing is conceptually attractive in that it offers the possibility of wider eligibility, lower cost, and more favorable terms of repayment. Though the Commission initially considered the possibility of public financing that would be available to all residents -- regardless of property or income status -- it became clear after discussions with bond counsel that there is no legal authority for a municipality to issue bonds for such a purpose. There does, however, seem to be legal authority to issue bonds under the auspices of the Fair Housing Act for the purpose of assisting low- and moderate-income homeowners.

The issuer could be an existing or a new, special purpose entity. Bond proceeds would be used to fund loans with which homeowners could pay property taxes or the issuing municipality could buy tax liens.

Were the mechanism to be the purchase of tax liens, the program would be limited to borrowers with no conventional financing in place. On the other hand, because tax liens have first priority in a foreclosure, any bond issue collateralized by tax liens would presumably be of high quality and would presumably warrant a

⁷ Princeton University, which has for many years provided below-market financing to faculty and staff wishing to purchase homes in the Borough and Township, might consider expanding its program of housing subsidies to targeted members of the community with no connection to the University.

correspondingly low rate of interest. It is worth noting that a municipality need not foreclose on tax liens that it owns, but can instead choose to hold them for up to 20 years.

Whether the program were structured as loans or as purchases of tax liens, a participating homeowner's repayment obligations would be secured by a lien on the homeowner's property – much as a conventional mortgage loan is secured by a mortgage on the borrower's property. Use of loan proceeds would be restricted to the payment of property tax liabilities above some predetermined threshold. Any funds borrowed would be used to pay some specified portion of the property tax bills for a defined number of years – with the result that the burden of rising property taxes would be deferred until some later date. The amount financed would be the property taxes deferred for each participating resident (up to 100%), aggregated for all participants and for a specified number of future years. Interest on the bonds could be capitalized (included in the amount financed) or paid annually as part of a participating homeowner's property tax bill. Principal would be repaid at the earlier of the maturity date or the occurrence of certain events (*e.g.*, a sale of the home).

Each property owner would be responsible only for repaying his or her loan; there would be no liability for loans extended to other participating homeowners.

Nor would there be any shifting of tax burdens. The full cost of the program would be borne by participating homeowners, who, as noted above, would collectively secure the bond issue with collateral interests in their individual properties. Equally significant, participating homeowners would continue to be responsible for paying 100% of the property taxes due on the full assessed values of their homes – but those payment obligations would be spread over time and perhaps structured with a bullet maturity.

One obvious advantage for participants would be that, so long as bond proceeds are not commingled with AHTF developer fees and contributions, bond funded loans would not subject borrowers to the deed restrictions imposed under the AHTF program discussed in Section VIII, 4. above. Low- and moderate-income residents with limited access to conventional financing might therefore find that this program, properly structured, would avoid the need to choose between moving from the community that is their home or foregoing the appreciation that represents their only real hope of meaningful savings.

There would also be benefits to the Borough and Township, which might each find that existing low- and moderate-income housing stocks could be maintained for much longer than would otherwise be possible -- with the result that the two communities would remain both stable and diverse.

Eligibility requirements, maximum loan amounts, collateral ratios, maturities, and prepayment provisions would need to be established, as would the overall administrative structure of the program. The Commission recognizes both that start up costs and ongoing administrative costs could be significant and that a prerequisite to the

establishment of such a program would be a thorough vetting by Borough and Township financial and legal advisors.

Notwithstanding these caveats, the Commission recommends that the Borough and the Township give further consideration to the establishment of a bond financed program to assist low- and moderate-income residents and/or elderly residents in managing their property tax burdens.

8. Pursuit of Additional PILOT Funds

40.33% of the Borough's assessed value and 19.58% of the Township's assessed value is tax-exempt.⁸

The community's tax-exempt institutions could perhaps be persuaded to increase their payment-in-lieu-of-taxes ("PILOT") contributions to the Borough and the Township, with the result that existing Borough, Township, Regional School District, and County expenses could be spread over a broader base and tax rates – and property taxes – could be reduced. The possibility of additional PILOT contributions is particularly alluring in that, since population density would remain unchanged, these contributions would be free of the offsetting costs that necessarily accompany most other attempts to broaden the tax base.

9. Review of Exempt Uses

Given the amount of tax exempt property within its boundaries, the Borough and Township should also consider examining more closely the uses of the properties for which tax-exemption is asserted. If portions of those properties are used for non-exempt purposes, then those portions could be returned to the tax rolls. Such an examination would extend to any tax-exempt entity that rents or leases or otherwise permits its property to be used for non-exempt profit making ventures.

It is the municipal assessor's current practice to request initial statements of tax-exempt status with respect to any property that a tax-exempt entity proposes to remove from the tax rolls. The municipal assessor then reviews the accuracy of those statements, looking for obvious errors or misrepresentations. Each entity asserting a tax exemption is required to reconfirm the tax exempt status of each of its properties not less frequently than once every three years.

A more rigorous examination could be undertaken to evaluate the basis and extent of claims of tax-exemption. Challenges to particular tax-exemptions would clearly be fact sensitive. Data would have to be collected regarding each property for which tax-exemption is asserted. Examples of the information required to properly evaluate tax-exempt status might include: the amount of space devoted to taxable and tax exempt uses; the number of staff assigned to such spaces over any relevant period of time; and the revenue generated from activities conducted in those spaces. Were a property to be found to be non-exempt in whole or

⁸ Email from Neal Snyder, March 17, 2011.

in part, the municipal assessor has the power to levy property taxes both for the current tax year and for the preceding tax year.

It should be noted that no formal program currently exists to investigate non-exempt uses of properties deemed to be tax-exempt. Investigating such uses would require more resources than the municipal assessor has at present.

The Commission recommended that both the Borough and Township explore establishing a program for more routine and thorough examination of the classification of tax-exempt property.

10. Existing Property Tax Subsidies

New Jersey laws provide property tax offsets or refunds to qualifying individuals, as follows:

a. Annual Property Tax Deduction for Senior Citizens, Disabled Persons

Annual deductions of up to \$250 from property taxes for homeowners age 65 or older or disabled who meet certain income and residency requirements. Claim forms may be obtained from the Borough and Township clerks.

b. Annual Deduction for Veterans

Annual deductions of up to \$250 from property taxes for qualified war veterans and their unmarried surviving spouse/surviving civil union partner/surviving domestic partner. Claim forms may be obtained from the Borough and Township clerks.

c. Property Tax Exemption for Disabled Veterans

Full exemption from property taxes on a principal residence for certain totally and permanently disabled war veterans and their unmarried surviving spouse/surviving civil union partner/surviving domestic partner. Unmarried surviving spouses/surviving civil union partners/surviving domestic partners of service persons who died on wartime active duty may also qualify. Claim forms may be obtained from the Borough and Township clerks.

See APPENDIX 19 for summary of NJ property tax programs.

11. Amendments to Existing Assessment Legislation

The Commission suggests the following modifications to existing laws governing assessments of real property:

(a) authority to designate an eight year cycle for physical inspections if a municipality elects to have voluntary annual assessments;

(b) greater latitude to use “unusable sales” in the event that the assessment process is rendered needlessly difficult by a limited number of “usable sales” in one or more neighborhoods.

12. New Property Tax Legislation

The Commission discussed potential amendments to existing legislation as a means of shielding taxpayers from the escalating assessments and property taxes, or, alternatively, making the appeals process less hostile and intimidating.

Spending caps, caps on annual tax increases, expanded statutory phase-in periods, and mandatory disclosure of appraiser’s sales comparables were all considered worthy of discussion.

Also worthy of further exploration are the homestead exemptions offered in some states. Florida, for example, enacted legislation (Florida Statutes 193.155 – Homestead Assessments) that can be summarized as follows:

- 1 Homestead property shall be assessed at “just value” as of January 1, 1994;
- 2 Properties receiving the homestead exemption after 1/1/94 shall be assessed at just value as of January 1 in the year the property receives the homestead exemption;
- 3 Beginning in 1995, or the year following the year the property receives the homestead exemption, any change resulting from reassessment shall not exceed the lower of:
 - a. the rate of inflation, as measured by the CPI for All Urban Consumers, U.S. City Average, all items 1967=100, or
 - b. 3% of the prior year’s assessed value.

The effect of Florida’s homestead exemption is to shift to new residents the burden of rising costs. One advantage is that long time residents can afford to stay in their homes – even when they reside in neighborhoods where new development has substantially increased land and property values. Gentrification is therefore much less controversial in Florida than it has been in the northeast.

A disadvantage of Florida’s homestead exemption is that the law creates a disincentive to move and a sharply tiered property tax system. New residents often find that their properties are assessed at ten times the valuations carried by properties that were homesteaded during the 1990’s.

The Commission did not have sufficient time or resources to evaluate potentially corrective legislative changes. It is nevertheless worth noting that the benefits of such legislation would be greatest in the event of rapid rates of increase in State wide property values and municipal, school, and county operating budgets.

13. Correlation between More Permissive Zoning and Rising Property Values

Zoning changes have the potential to alter property values significantly. More permissive zoning -- *e.g.*, in the form of higher FAR (floor area ratios), increased density (*e.g.*, more residential units or commercial square feet per acre), reduced setbacks, and increased height limitations – has the effect of sharply increasing land values. Absent protections for existing property owners, those increased land values will be translated into significantly higher property tax bills. Princeton Borough in general, and the John Witherspoon neighborhood in particular, are especially susceptible to such pressures.

The rising property values occasioned by zoning changes and development pressures are certain to diminish a municipality's inventory of affordable housing. Such changes and pressures will also tend to have a disproportionate affect on the elderly and homeowners with low or moderate incomes. For all of these reasons, the Commission recommends that the Borough and Township Planning Board give careful consideration to the possibility of adverse affects on low and moderate income homeowners when they evaluate zoning changes and variances that are likely to have the effect of driving up land values.