

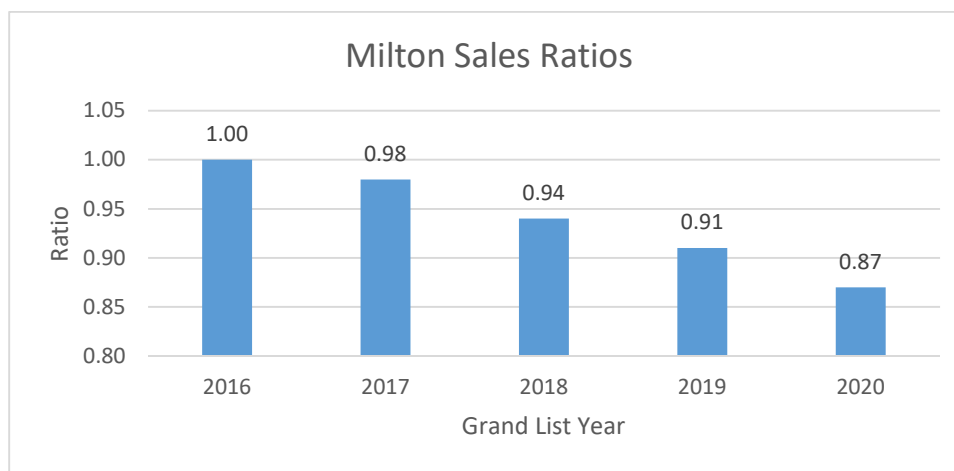
The Sales Ratio: What does it Mean?

One of the important pieces of information used in the assessment world is the sales ratio statistic. It tells us the market level property is being appraised/assessed. In the perfect world, the assessments and sales prices would be the same; a property assessed for \$100,000 would sell for \$100,000. As we all know, that rarely happens.

The reason for this discrepancy is because the assessed values are created at a specific point in time. While the physical characteristics of properties may change (additions to a property, changes in condition, for example), the base information used to value properties remains static until another reappraisal is completed. Changes in market value also occur over time, which creates a discrepancy between the assessed values and market values. This discrepancy is measured by the sales ratio.

The sales ratio is a simple statistic: the assessed value divided by the sale price. A property that is assessed for \$100,000 and sells for \$115,000 has a ratio of .87. In other words, the property is being assessed at 87% of market value. If the property sells for \$85,000 and the assessment is \$100,000, the property is being over assessed by 18%.

Examining the ratios of property sales over an extended period of time provides an overall view of the level of assessment. The following chart shows the ratios of sales from the 2016 grand list year through 2020 (residential properties only):



As the chart shows, the assessment ratio for 2016 was 1.0. This indicates that on average, the assessed values and sale prices were about the same. However, in 2017 the ratio dropped to .98, indicating an increase in market value by 2%. The decline in the sales ratio then continued for the next three years to a ratio of .87 for the 2020 grand list year. This indicates an increase in the market value of properties of 13% since 2016, or about 3.25% a year over the past five years. Milton has experienced a robust market over the past few years.

Each year the Vermont Tax Department (Property Valuation and Review) completes a study of the sales for each Vermont town. They use the sales to calculate a Common Level of Appraisal (CLA). The CLA statistic is calculated using three years of sales instead of just one. This tends to soften the impact of drastic increases or decreases in market values. This statistic is used by PVR to adjust, or equalize, the education tax rates for each Vermont town.

The CLA for Milton in 2020 was 95.22 (this includes all classes of property). The impact of the CLA on the education tax rate can be illustrated by the following example: If the tax rate is \$1.00 per hundred in value, the equalized rate would become \$1.05 ($1.00 / .9522$) after adjusting for the CLA. This shows the impact the CLA can have on the tax rate and is one reason that property assessments should be maintained at near market levels.

In summary, the simple statistic of the sales ratio can reveal the level of assessments in a town, and can have a significant impact on the rates used fund education. It also illustrates the importance of updating the current assessed values.