



Office of the Comptroller

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February 16, 2005

To whom it may concern:

Our audit report titled "Audit of the City Residential Real Estate Assessment Process" dated February, 2005, included a response from the Assessment Commissioner, Mary Reavey. The report inadvertently left out page 5 of Ms. Reavey's letter, dated February 2, 2005. The attached is the complete response letter from Ms. Reavey. This letter should be read in context with the audit report.

Please contact me should you require another copy of this audit report previously sent to you.

Sincerely,

W. Martin Morics,  
Comptroller

Attachment

WMM:MJD:dos



ASSESSOR'S OFFICE

Mary P. Reavey  
Assessment Commissioner

Peter C. Weissenfluh  
Chief Assessor

February 2, 2005

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

Dear Mr. Morics,

We appreciate the efforts made by your department to study our residential assessment procedures. The assessment process can be complicated and is not easily understood. Beginning in June of 2004 we have engaged in numerous meetings and provided extensive data and documentation. We appreciate that you recognize that this office has fully complied with your information requests. We are proud of our staff; proud of the product we produce and truly believe the results do create a uniform and equitable basis for distribution of the various taxing body levies. That fair distribution along with consistent application of state statutes is our ultimate goal. Although the "appraisal" profession is considered an art rather than a science professional standards do exist. We consistently meet, or in fact, exceed those standards.

While we are generally pleased with the results of the audit, the Assessor's Office would like to comment in an effort to help your readers more fully understand the assessment process. We particularly want to address your conclusion that the "lowest one-third of properties is on average assessed slightly greater-than-market while the middle and upper thirds are assessed at slightly less than market". We believe that statement while expressed as "slightly" is actually not accurate. Our explanation and further comments are presented in the attached report.

We would be happy to address any questions that you might have.

Sincerely

Mary Reavey  
Assessor's Office

## AUDIT REPLY – ASSESSOR’S OFFICE

**Background:** The Assessor’s Office is responsible for uniformly and accurately assessing all taxable property in the City of Milwaukee excluding property classified by the Department of Revenue as manufacturing. This includes the annual valuation of over 160,000 parcels of real estate and personal property. To accomplish this task our current staff consists of 51 professional, technical, and administrative employees.

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

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

The following response is structured based on the 4 objectives as discussed under “Audit Scope and Objectives”.

**Objective 1: Determine the extent of the City’s compliance with State regulations and established professional standards regarding its residential assessments.**

State statute requires assessments to be within 10% of market value once every four years. This requirement was established by the Wisconsin legislature in the mid 1980’s. Milwaukee has always met the assessment level requirement as pointed out in Table 1 of the audit. Now that revaluations are performed annually in Milwaukee, we obviously exceed statutory expectations.

The City of Milwaukee’s residential assessment process falls into the excellent category as set by the State of Wisconsin for an important measurement of uniformity known as

the Coefficient of Dispersion (COD). The other standards laid out in Table 2 are not state standards. The second standard, Price Related Differential (PRD), a measure of progressivity/regressivity, is not a state standard, but an IAAO Standard. Regardless, the City of Milwaukee's residential assessment performance falls within the category that would characterize our performance as neither regressive nor progressive. This means low and high value properties are equally assessed. The final measure in Table 2, Coefficient of Concentration, is neither a state standard nor IAAO standard. Nevertheless, the City of Milwaukee's performance would be considered desirable especially considering the diverse nature of the properties that we assess.

Although there are no recommendations as a result of this objective we do find some statements in the report puzzling. At one point the report characterizes that we are in general compliance while the "Audit Conclusions" indicate complete compliance. At times, we feel by comments made in the audit, the Comptroller's Office serves to hold us to a higher standard than is expected within our profession. We would argue that our performance is excellent and is in full compliance with all state regulations and professional standards.

**Objective 2: Establish whether the Assessor's Office parcel-specific residential property data-base used in developing assessments is accurate.**

This part of the audit focused on a sample of 158 properties and an analysis of property inspections based on fielded appeals, permits and sales. The audit found minor errors in the data base and that some properties had not been inspected.

Since the audit demonstrates that the current assessment database is sufficiently accurate to meet and exceed state requirements, one could ask, "do the minor inaccuracies noted warrant a shift in priority of workload assignments?" We feel that error-checks internal to our systems catch the errors in variables that drive value.

The inspection data laid out in Table 3 is incomplete. First, it only shows inspections for three types of activities – appeals, permits, and sales. In actuality, we also inspect property for other reasons, including combinations, divisions, status changes, request for review, unfinished prior years' assessments, verification of unit counts for solid waste fees, exemption reviews, special projects, etc. The total residential inspections in 2003 actually amounted to 11,616. Secondly, Table 3 is misleading because it compares work that was initiated in 2003 to actual inspections of that work in 2003. Due to the cyclical nature of the assessment process and its workload, much of the work initiated in 2003 is actually completed during 2004. For instance, we are confident that all 4,431 permits were inspected and valued for the January 1, 2004 assessment over a time frame that includes year 2004.

We believe that we already exceed the initial goal in recommendation #1. When all residential inspections are considered, the percent of inspections is 8.6%. Further, in light of our current workload responsibilities, if increased inspections were a legitimate

goal, more staffing would be required. It is also important to note the measurement of the efficiency and staffing needs of this department was not considered part of the audit.

**Objective 3: Evaluate the Assessor's Office computerized mass appraisal system (CAMA) in terms of its compliance with State requirements and professional standards and the adequacy of controls over CAMA including any manual adjustments.**

This objective is divided into three components:

1. Does CAMA comply with state requirements and professional standards for the determination of assessed values?
2. Does the assessment process include adequate controls over manual changes to CAMA computer-produced assessments?

We agree with the audit analysis that the CAMA system helps us produce values that comply with state and professional standards. The process to manually override assessed values is well controlled and supervised.

3. Are current computer and administrative controls over CAMA adequate?

The Assessor's Office has used versions of CAMA for the mass appraisal of residential property since 1978. We began the process of developing the up-to-date systems we currently use in 1996. Since that time we have concentrated our resources on enhancing the components of this system. Because of that the documentation exists but is somewhat fragmented. We were aware of the need for documentation long before the audit and are addressing it internally. We understand its importance and will continue to standardize and document these procedures as suggested in Recommendation #2.

Recommendation #3 would require a cyclical review of all property records. We question the cost-effectiveness of this approach and the increased accuracy it would achieve. As indicated previously, we have internal edit checks to monitor and find errors in data fields that impact a property's value. Also, the entire open-book and appeal process is the foundation of another form of validation from the taxpayers themselves.

**Objective 4: How uniform are assessments within the City of Milwaukee?**

To determine whether uniform assessments are made, the auditor conducted two limited ratio studies. One of the conclusions in the audit report indicates a perceived perception of a regressive assessment. To quote specifically from the audit:

"The results of the audit assessment ratio analysis for all 2003 residential sales within the City of Milwaukee indicate that properties with lower sales values tend to be assessed at values slightly above their market value. In contrast, this same analysis shows that

properties with higher sales values tend to be assessed at slightly lower than their market value.”

These comments from the audit relate to regressivity or progressivity of assessments. Assessments are considered regressive if high-value property is under assessed relative to low-value property and progressive if high-value property is over assessed relative to low value property. The audit drew the above conclusion based on the use of assessment ratios. It is more accurate to measure the possibility of these occurrences using the Price Related Differential (PRD), a statistic developed specifically for that purpose. This statistic takes into account all property that sold and measures the relationship citywide. PRD's greater than 1 indicate progressivity and lower than 1 indicate regressivity. As can be seen on Table 2 of the audit, our PRD's for residential properties has been excellent, well exceeding IAAO expectations. In fact the 2002 and 2003 PRD's at 101 and 99.1 respectively, are categorized by the IAAO as “low and high value properties are equally appraised”.<sup>1</sup> In other words neither type of property are favorably assessed and there is no assessment bias.

In addition to using an incorrect measure, we believe the reason for the auditor's conclusion is based on another flaw. Their study compared the January 1, 2004 assessment with sales that occurred in 2003. A fundamental requirement for a ratio study is to insure that for each sale used, the physical characteristics are the same at the time of the assessment and the time of the sale. We examined a sample of the “outlier” sales ratios used in the analyses and found that legitimate changes were made in the physical characteristics between the time of the sale and the time of the January 1, 2004 assessment. Because the changes generally increased the assessments for 2004, the resulting assessment ratios give the appearance of regressivity. This phenomenon, called the “boundary effect” is most prevalent at the lower and upper ends of the selected strata. It is for this reason the IAAO recommends using the PRD to measure equality in the assessment of low- and high-value properties.

Further, the results of the two limited studies do not make sense when viewed together. The first limited study presents sale properties in groups by sale price range. The audit conclusion was that assessment ratios for the lowest-valued group were regressive. The second limited study presents sales grouped by geographic areas. In that study the conclusion was that ratios for assessments in the central city were progressive. Data shows that property in Milwaukee's central city is lower in value than property in the north and south geographic areas. It is impossible for the assessments of lower-value properties to be both regressive and progressive. In simple terms, the results of these two studies are contradictory. Regardless of the conclusions it is important to note that the aggregate assessment ratios for both studies are well within acceptable state and IAAO standards.

Recommendation #4 is similar to Recommendation #1. It suggests that more on-site inspections be made in areas with fewer valid sales. We do not understand how that

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<sup>1</sup> Mass Appraisal of Real Property, Robert Gloudemans, International Association of Assessing Officers, 1999, page 240.

would benefit the assessment process to a large degree. A cost-benefit analysis would be necessary before expending tight resources. As demonstrated throughout this report, the current system not only meets, but also exceeds industry standards as managed. We believe that the increase in resources that this would require could be more effectively put to use in other areas of the assessment process.

**Summary:**

Overall we believe that the Comptroller's Audit confirms that the assessment process as currently employed and managed by the Assessor's Office meets the goal of producing accurate, uniform, and equitable assessments. The data analyzed shows that expectations established by the State of Wisconsin and assessment professionals are achieved and exceeded in our current processes. We appreciate the analysis and the opportunity to have our processes validated.