Subject: FW: Excluded Sales
Attachments: Statewide Equalization 2013 - Excluded Sales Blanket Language 4-24-13.docx

From: **Thomas Freimuth** <tdfreimuth@gmail.com>
Date: Mon, Apr 14, 2014 at 4:33 PM
Subject: Excluded Sales
To: ruth.sorensen@nebraska.gov
Cc: Nancy Salmon <nancy.salmon@nebraska.gov>, Rob Hotz <rob.hotz@nebraska.gov>, Steve Keetle <steve.keetle@nebraska.gov>, "Chamberlin, Charles" <charles.chamberlin@nebraska.gov>

Ms. Sorensen:

Following is the first paragraph of my attached blanket excluded sales language from 2013 Statewide proceedings:

> Ruth Sorensen, the Property Tax Administrator, has stated in these 2013 Statewide Equalization proceedings that it is not statutorily permissible for her to offer statistics based on unqualified sales. Thus, even though I have concerns regarding the exclusion of transactions with respect to all classes of properties in all of Nebraska's 93 Counties, my review of the law indicates that I am not able to demonstrate that any potential adjustment to a class or subclass could be proposed for an order to show cause for any County in Nebraska based on these concerns.

Following is language from p. 12 of Douglas R&O 2014 (note 20% reference in second paragraph):

> The International Association of Assessing Officers (IAAO) recognizes that certain types of sales are oftentimes invalid and should be excluded, unless a larger sample size is needed. When a larger sample is needed, some of these sales may be used for measurement purposes, if they are carefully verified and if they are a significant portion of the market area sales. It should be stressed that some sales considered invalid should never be considered for measurement purposes under any circumstances, no matter the sample size. Three types of sales that have the possibility of being considered valid sales for measurement purposes, if needed, are Sales Involving Government Agencies, Sales Involving Financial Institutions as Sellers, and Short Sales.
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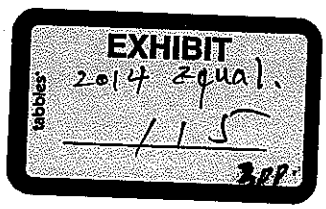
> When a governmental agency is the seller, values typically fall on the low end of the value range and should not be considered in ratio studies unless an analysis indicates governmental sales have affected the market. Sales involving financial institutions as sellers are typically on the low side of the value range because the financial intuition is highly motivated to sell and may be required by banking regulations to remove the property from its books. These sales may be considered as potentially valid for ratio studies if they comprise more than twenty percent of sales in a specific market area. In a short sale, the lien holder agrees to accept a payoff for less than the outstanding balance of the mortgage or loan.



A comparative analysis was conducted of the qualified sales roster against the qualified sales roster with the inclusion of the three aforementioned sales. The results were very analogous between the two rosters, with the medians of both rosters in range. The results indicated that these non-qualified sales were not disqualified based on an apparent bias. Rather, these sales were disqualified because they simply were not needed. The sample size was more than adequate with their exclusion and they did not meet the needed threshold to be considered a significant portion of sales. The review of Douglas revealed that Douglas ensures that all arm's length sales are made available for the measurement of real property and does not base disqualification on any improper criteria.

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Please be prepared to discuss the statutory basis that you relied upon last year in stating that it is not permissible for you to offer statistics based on unqualified sales.

Further, assume that your response to my excluded sales request in Douglas County discloses that approximately 70 or more sales in Market Area 2 were excluded (i.e., more than 20% of the 335 sales included), and that the median resulting from inclusion of these 70 sales produces a median higher than 100. Why could I not then request a "What If" to 96%???

Please be prepared to discuss this week during our Statewide hearings.

Thanks.

Tom

Ruth Sorensen, the Property Tax Administrator, has stated in these 2013 Statewide Equalization proceedings that it is not statutorily permissible for her to offer statistics based on unqualified sales. Thus, even though I have concerns regarding the exclusion of transactions with respect to all classes of properties in all of Nebraska's 93 Counties, my review of the law indicates that I am not able to demonstrate that any potential adjustment to a class or subclass could be proposed for an order to show cause for any County in Nebraska based on these concerns.

Pages 31 and 32 of Exhibit 102, which is the Sales File Practice Manual that has been received in evidence in these 2013 Statewide Equalization proceedings, set forth guidance regarding the use of transactions involving distressed properties as indicators of value for Statewide Equalization level of value measurement purposes. This guidance is as follows:

> **Page 31:**
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> **In a market where foreclosure properties are abundant, buyers may have comparable foreclosure properties to choose over conventional listings. Weak economic conditions in an area may cause the general residential and commercial market to meet the market of the foreclosure property resales, making foreclosures valid indicators of market value for non foreclosure properties.**
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> **Page 32:**
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> **Sales from banks should not be automatically considered a non-arm's length transaction especially if you do not have an abundant supply of sales. Typically, values will be on the low end of the value range, but they may be considered arm's length transactions and included in the ratio study if all other criteria for being an open market arm's-length transaction are met.**

Additionally, the PTA provided me with Exhibit 115 received in evidence, which indicates that over 4100 transactions east of 72nd Street in Douglas County were excluded from the Sales File used for statistical analysis in these 2013 Statewide Equalization proceedings. The PTA also provided me with Exhibit 116 received in evidence, which indicates that over 850 transactions east of 72nd Street in Sarpy County were excluded from the Sales File used for statistical analysis in these proceedings.

Based on the level of value measurement guidance contained on pages 31 and 32 of Exhibit 102 referenced previously, together with consideration of Exhibits 115 and 116 regarding excluded transactions east of 72nd Street in Douglas and Sarpy Counties and the discussion on the record in these proceedings relating thereto, it is my concern that sufficient consideration has not been given to inclusion of some these transactions in the Sales File developed pursuant to Neb. Rev. Stat. §77-1327 used in these 2013 Statewide Equalization proceedings for measurement purposes in Douglas and Sarpy Counties. It is also my concern that sufficient consideration has not been given to inclusion of distressed transactions in the Sales File used in these 2013 Statewide Equalization proceedings for measurement purposes in the 91 Counties in Nebraska other than Douglas and Sarpy Counties. Therefore, respectfully, I plan to oppose any finding that the indicated levels of value for any of the classes of property are within the acceptable range required by law with respect to all classes of property in all of Nebraska's 93 Counties.

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