

INTRODUCTION TO CHAPTER 123

The simple goal of the “Chapter 123 property assessment test” is to verify that the relationship between your *total assessment* and your *true market value*, as viewed as a ratio or percentage, is within an acceptable range of the *Common Level* for your municipality. If it is not, then the current assessment is viewed as either too high or too low and will be adjusted accordingly. The Chapter 123 test relies upon the accuracy of the *estimated true market value* established for the property under review. Accordingly, true market value estimates should be realistic and derived from recent sales of comparable properties. Within the appeal setting, the determination of the *true market value* is the primary goal of the hearing officer. *Chapter 123* is not used in the year of Revaluation or Reassessment. In the year of a revaluation or reassessment there is no “range of permissible values” because the *total assessed value* must equal the *true market value*.

CHAPTER 123 CALCULATIONS

The target of the revaluation process is to set each individual assessment so that it equals the property’s true market value. See *Figure 1* below.

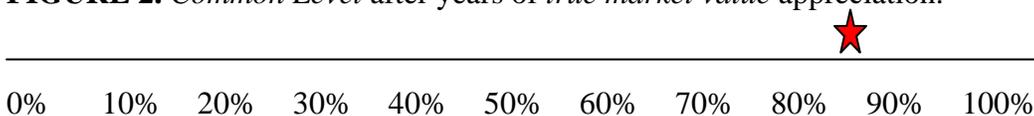
FIGURE 1. *Total assessment equals true market value*



In the year of a revaluation, where the *total assessment* must equal the *true market value* of the property, if a taxpayer proves, through the presentation of credible market value evidence, that the *true market value* of the property is different than the *assessment*, by any amount, then the *total assessment* will be changed to equal the *true market value*.

In the years following a revaluation the relationship between the *total assessment* and the *true market value* change. This change is due to the fact that, unless changes are made to the physical structure, the *total assessment* remains unchanged from one year to the next, while the *true market value* of the property or *what you would sell it for* changes over time. See *Figure 2* below.

FIGURE 2. *Common Level after years of true market value appreciation.*

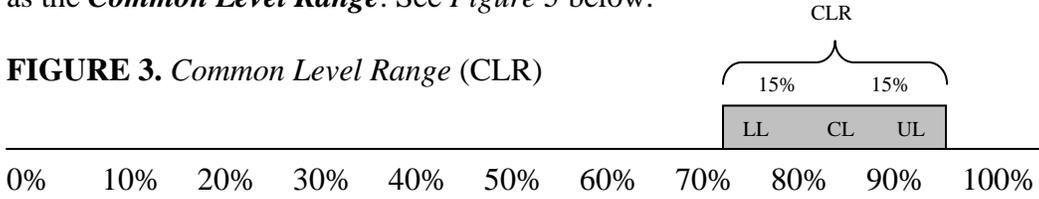


To track the changes in the relationship between the static *total assessment* and the changing *true market value*, each October all property sales that have occurred within a taxing district are analyzed. The individual ratios are used to determine an *average ratio* for the municipality. This *average ratio* is referred to as the municipality’s *Common Level*. The *Common Level* represents the appropriate percentage of *true market value* for all *assessments* within the municipality.

The Courts have held that where it is impossible to have every property assessed exactly at the *common level*, it is reasonable to require that all properties are within a “reasonable range” around the municipality’s *Common Level*. In 1973 the New Jersey Legislature adopted a formula know as *Chapter 123* to test the fairness of an assessment, standardize the application of the “reasonable range” concept, and determine appropriate adjustments, if any, to assessments under appeal.

In accordance with State law, **N.J.S.A. 54:3-22**, the “range” of permissible ratios is 15% of the *Common Level* both above and below the *Common Level*. This area, between the **Lower Limit** and the **Upper Limit**, is known as the **Common Level Range**. See *Figure 3* below.

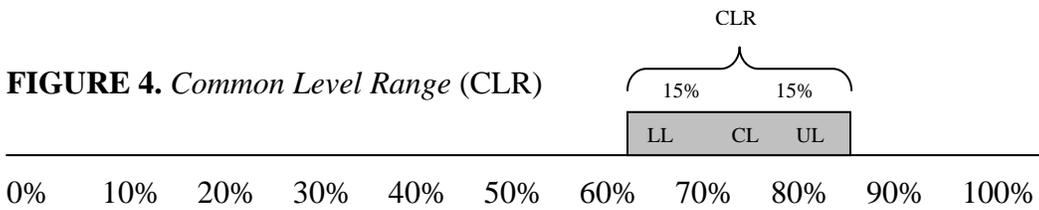
FIGURE 3. *Common Level Range (CLR)*



$$\begin{aligned} \text{Common Level (CL)} &= \mathbf{84.94\%} \\ \text{Lower Limit (LL)} &= .8494 \times .85 = \mathbf{72.20\%} \\ \text{Upper Limit (UL)} &= .8494 \times 1.15 = \mathbf{97.68\%} \end{aligned}$$

Again, as years pass, the *Common Level* continues to change as does the *Common Level Range*. See *Figure 4* below.

FIGURE 4. *Common Level Range (CLR)*



$$\begin{aligned} \text{Common Level (CL)} &= \mathbf{75.46\%} \\ \text{Lower Limit (LL)} &= 75.46\% \times .85 = \mathbf{64.14\%} \\ \text{Upper Limit (UL)} &= 75.46\% \times 1.15 = \mathbf{86.78\%} \end{aligned}$$

Simply put, your assessment is appropriate if the ratio of your *total assessment* to the *true market value* of your property (assessment / true market value = ratio) falls within the *Common Level Range* for your municipality (See **Common Level Range Table** annexed hereto). If the ratio is below the *Lower Limit of the Common Level Range* the *total assessment* should be raised and if the ratio exceeds the *Upper Limit of the Common Level Range* the *total assessment* should be lowered.

DETERMINING THE APPROPRIATENESS OF YOUR ASSESSMENT UNDER CHAPTER 123

It is suggested that you perform a “test” of the appropriateness of your assessment by initially estimating your *true market value* and working through the steps that follow.

The good news is that 4 of the 5 figures needed to perform the Chapter 123 test have already been compiled; only your estimate of true market value is needed. Included in this handout is a table that provides you with the *Common Level* and the corresponding *Lower Limit* and *Upper Limit* ratios that make up the *Common Level Range* for each of Monmouth County’s 53 municipalities. See *Common Level Range Table*. Your *total assessment* is public information and can be obtained from your *Notification of Assessment Postcard* that is mailed on or about February 1st of each year, your local municipal Assessor, the Monmouth County Tax Board at <http://oprs.co.monmouth.nj.us/oprs/index.aspx>, or the *records search* section of the *New Jersey Association of County Tax Boards* website at <http://njactb.org>.

EXAMPLE #1: Within Common Level Range: No Change in Assessment

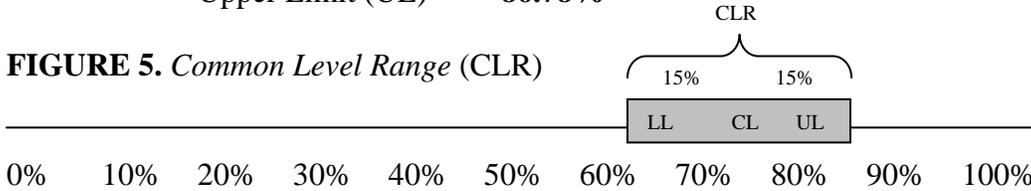
Step 1: For this example we will again use 75.46% as the *Common Level* and develop the Upper and Lower Limits (see *Figure 4* above).

Common Level (CL) = **75.46%**

Lower Limit (LL) = **64.14%**

Upper Limit (UL) = **86.78%**

FIGURE 5. *Common Level Range (CLR)*



Step 2: Confirm your *total assessment*
(For this example we will use \$500,000)

\$500,000
(Total current assessment)

Step 3: Estimate your *true market value*
(For this example we will use \$625,000)

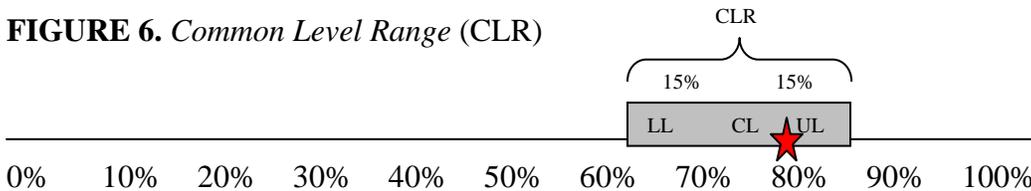
\$625,000
(Estimated true market value)

Step 4: Calculate the “*Estimated Property Ratio*” by dividing your *total assessment* (from Step 2) by your *estimate of true market value* (from Step 3).

$$\text{Estimated Property Ratio} = \frac{\text{Total assessment}}{\text{Estimated true market value}} = \frac{\$500,000}{\$625,000} = \mathbf{80\%}$$

Step 5: Plot your *Estimated Property Ratio* (from Step 4) against the *Common Level Range* established earlier (see *Step 1, Figure 6*)

FIGURE 6. *Common Level Range (CLR)*



Example #1 Conclusion. The 80% ratio of *total assessment* to *estimated true market value* falls within the *Common Level Range* of the municipality. As such, the assessment is deemed to be appropriate and no adjustment is necessary.

EXAMPLE #2: Above Common Level Range Upper Limit: Lower Assessment

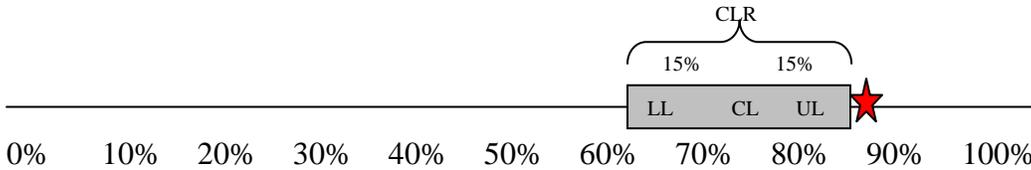
For this example we will again use the following:

Common Level (CL) = 75.46%, Lower Limit (LL) = 64.14%, Upper Limit (UL) = 86.78%

But we will change the *total assessment* and the *estimated true market value* as shown:

Total current assessment = \$380,000
 Estimated true market value = \$425,000
 Estimated Property Ratio = \$380,000 / \$425,000 = **89.41%**

FIGURE 7. Showing *Common Level Range* (CLR) and Property Owner’s Ratio (POR)



Example #2 Conclusion. The 89.41% ratio of *total assessment* to *estimated true market value* exceeds the *Upper Limit* of the *Common Level Range* of the municipality (86.78%). As such, the assessment is revised (lowered) by multiplying the *estimated true market value* by the *Common Level*.

$$\frac{\$425,000}{\text{True Market Value}} \times .7546 \text{ Common Level} = \$320,705 \text{ Revised Total Assessment}$$

EXAMPLE #3: Below Common Level Range Lower Limit: Increase Assessment

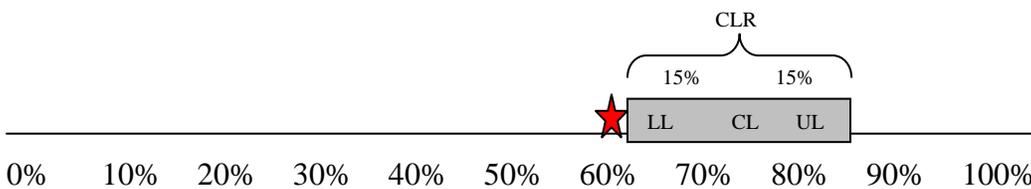
For this example we will again use the following:

Common Level (CL) = 75.46%, Lower Limit (LL) = 64.14%, Upper Limit (UL) = 86.78%

But we will change the *total assessment* and the *estimated true market value* as shown:

Total current assessment = \$840,000
 Estimated true market value = \$1,350,000
 Estimated Property Ratio = \$840,000 / \$1,350,000 = **62.22%**

FIGURE 8. Showing *Common Level Range* (CLR) and Estimated Property Ratio



Example #3 Conclusion. The 62.22% ratio of *total assessment* to *estimated true market value* falls below the *Lower Limit* of the *Common Level Range* of the municipality (64.14%). As such, the assessment is revised (increased) by multiplying the *estimated true market value* by the *Common Level*.

$$\frac{\$1,350,000}{\text{True Market Value}} \times .7546 \text{ Common Level} = \$1,118,710 \text{ Revised Total Assessment}$$

