SPL Success Story - Jefferson, NJ

How a Local City Was Transformed in Less Than Ten Years

Executive Summary

Local governments have always struggled with the need to increase and improve services, while lowering cost. The recent public trend is encouraging cities to try and operate more like a "business," bringing efficiency and innovation to running the city. But how could this be done in reality?

This is the story of Jefferson Township, a large municipality in the northern part of NJ, which adopted the Strategic Project Leadership (SPL) methodology for the past 10 years to maintain the stability of its revenue base during one of the most volatile and deep recessions in modern times, while improving services and increasing citizen satisfaction.

The SPL story began in the mid 2000 at the city's taxation services. A traditional and routine tax assessment process (imposed by the state) was used as a test project to implement SPL in the city. The project transformed a traditional property tax revaluation into a fiscal management value-creation tool that saved the city millions of Dollars annually, mitigated the loss of extensive tax revenues, while still maintaining and improving services. The project served as a pilot to extend the same methodology to the next assessment stage and later on to all other city services. **The city became the most effective city in New Jersey based on quality of services, citizen satisfaction surveys, relative property values, balanced budget management, and equitable tax reduction rates.**

The City's Experience with Strategic Project Leadership

Introduction

Government agencies are in the business of providing safety, health, and welfare services to its citizens. There is always a balance of providing enough services while keeping costs at a minimum. Funding is typically generated through taxes on items such as property, sales of goods or, income. New Jersey is an Ad Valorem tax state meaning local, county, and school districts fund their operations by taxing the "value" of real estate. Establishing a stable and equitable revenue source enables government to efficiently maintain consistent levels of service. Therefore, a city's tax system must create the right balance between effective tax collection and a fair and equitable system acceptable to the citizens. This balance is a difficult task, and most cities struggle continuously between the two.

Traditionally, the real estate market has operated with low volatility and has not been susceptible to dramatic swings in value over short periods of time. However, during the past two decades, this has changed. Real estate has seen rapid fluctuations in value affecting different neighborhoods in a different way within the same community. Maintaining a stable revenue structure became very difficult to sustain in this type of economic climate. Citizens who rely upon government services expect to see stability and improvement in service levels while maintaining their cost efficiency. When funding stability is disrupted, citizens become unhappy due to reduction of services or large increases in their tax bills. This is a story of a city that found the right balance between the two by using the methodology of Strategic Project Leadership®. Based on citizen satisfaction measures of their city's government, Jefferson's city system has become one of the most effective in the state.

Background

Jefferson Township is a large municipality situated in the Northwest section of NJ. The township is approximately 44 square miles. The State of New Jersey State is relying heavily upon property taxes to fund the majority of its school, local, and county government services. Local tax levels are apportioned amongst its residents through the tax assessment system. Tax assessments are constructed to approximate market value for all properties at the same time as prescribed by the state constitution. The process of appraising every property within a municipality is expensive and labor intensive; and revaluation is only performed on average every 10 to 15 years. Jefferson conducted a revaluation of tax assessments in 1990 and implemented it for the 1991 fiscal year. The previous years were a time of unprecedented market growth in real estate value. However, the stock market crash in October of 1988 brought an abrupt disruption to the financing of this environment. This event halted the appreciation of value in real estate and started a sustained drop in real estate values. By 1993, all gains in value from the past decade were eliminated. Jefferson had structured all of its assessment values at the height of a market and implemented it during the sudden decline with no dynamic mechanism to correct for such a change in the economic climate. No wonder dissatisfaction and citizen resentment became so prevalent.

The first half of the decade (1991 – 95) saw large number of tax appeals being filed by property owners who were charged taxes on values that were higher than they could sell. While many citizens were successful in gaining reductions to their individual tax bills, this set off a chain of events that created an impossible to maintain environment together with an equitable and efficient revenue source. By the end of the 90's the real estate market had finally stabilized and was reverting back to an average rate of growth as had been seen over the past 50 years. Unfortunately for the Jefferson's assessment structure, years of partial adjustments had rendered it inequitable.

In 2001, the Morris County Board of Taxation ordered a revaluation for all property assessments in Jefferson Township. The revaluation was mandated because property owners with properties of similar market values were paying dissimilar property taxes. A consent order was agreed upon and signed on May of 2002 that a township wide revaluation would be completed and implemented by January 1, 2006. .

How Was the Project Managed?

Traditionally, the revaluation process has followed a standard project management approach. The tactical focus was on efficiency only, with time and budget as the two success factors. Introducing Strategic Project Leadership has expanded these dimensions. The change to a strategic focus led to establishing additional metrics of success such as efficiency, customer satisfaction, team moral, business success, and preparing for the future. In addition, in previous assessments, the only customer considered was an internal one, the township. Under a strategic examination an additional external customer was considered, the taxpayer. The multi-dimensional approach helped answer the following questions and answers:

- **Why** we were performing the revaluation? To solve the problem of inequality in tax bills and to stabilize the revenue source.
- **What** business objective were we to achieve? A fair system that was dynamic enough to identify and adjust rapidly to avoid a repeat of the current situation.
- **What** was the final product produced? A market trend business process that reduced cycle time and cost.
- **How** did we do it? Introduced new technologies and analytical tools not previously considered in valuation processes.
- **How** did we measure success? Considered the impact on the five effectiveness dimensions identified.

The inclusion of business process metrics and the delivery of sustainable assets have created a new innovation platform. Outlined below are the description of some of the new process and its activities and the immediate results upon completion of the project.

The project used the multiple success dimensions to plan, executed and monitor its activities. For example, by defining the city's citizens as customers, the project installed numerous new communication channels with citizens. By identifying their desires and monitoring their satisfaction, the project was able to adjust and focus on success in a different way. In addition, by defining the value proposition in a wider sense, the city was able to expand the project beyond a traditional revaluation project, and focus the team on a constant look for more ways to improve value and satisfaction.

The technology and innovation aspects of this project were not readily apparent at the onset. Using the "Diamond of Innovation" framework allowed identifying new platforms and creating sustainable business assets that have helped maintain and improve the tax system that was established in 2006. Implementation of an enterprise real time information database allows for better monitoring of markets. Open public records shared over the Internet expand upon the information and educational component of the revaluation project. All citizens now have a first of its kind portal that gives transparency and educational information on the taxing process. Computer modeling and analysis innovatively establishes a mechanism to combat volatility in the markets and stabilize the revenue system.

Project results were highly effective and beneficial. The revaluation was completed on time on December 29, 2005, and within the budget of $660,000. The two years following a revaluation the estimated number of appeals anticipated are normally 5 – 10% of all properties. In the first year of implementation (2006), only 2.56% of the taxpayers filed appeals. The second year saw a decrease to only 0.76% of property owners filing appeals. This is a clear demonstration of the satisfaction and understanding the general public has with their final assessment. The SPL charter had documented that less than 1 in 500 owners would file a complaint regarding customer service during the course of the revaluation. These are strong indications of customer satisfaction with the overall process and effectiveness of the educational process and information sharing.

Another important indication was the impact on business success for Jefferson Township. The revaluation was necessary because there were large inequities in valuation models to similar properties. This is measured by analyzing the deviation of the assessed value to market value; the lower the deviation the more equitable. Prior to the revaluation, the average levels of deviations were as high as 15.88% and afterward, at 8.08%. A new dimension introduced by SPL was the idea of error rate or how many mistakes were made during the process. Although dealing with valuation is an opinion and a subjective matter, the total amount of refunded taxes due to appeals is a good indicator of misjudgment. During the first year of implementation (2006) $105M was under appeal with $3.8M lost after hearings. This was a total of 0.12% reduction to the total revenue base. The second year saw $62.9M under appeal with a total loss of $2M after appeal hearings, approximately 0.064% of the total revenue base. Both years combined equated to 0.18% error rate on valuation overall. The identified goal was to have less than 1%. Additionally, prior to the revaluation, the total revenue source was estimated to be $2.7B. After the project completion the actual total revenue source was valued at $3.2B a 20% increase. This allowed for a 16% decrease in the overall tax rate charged on property values for taxes.

Déjà vu - All Over Again – But Now we are More Ready…

In July of 2008, Jefferson was faced once again with a sustained declining real estate market, similar to that of the late 80's. The new revaluation project completed in 2006 had implemented a long term strategy of faster market analysis, identified financial metrics and integrated newer technology to enable an improved valuation process. This new technology process identified a decline prior to the credit freeze of August 2008. An application for reassessment was submitted in September outlining market trends and explaining the revised process to be implemented.

April of 2009 brought a 400%+ increase in tax appeals over the prior year. To compound the problem, most of the appeals consisted of groups from homogenous neighborhoods with similar type properties. Reducing a small group from a neighborhood this year would require the reduction of the entire neighborhood the following year. That would impact 25% of the entire ratable base ($800M). A decision was made to perform the reassessment as outlined the previous fall and create a "reassessment prototype" for settling the 2009 tax appeals. Proof of concept for the prototype was established by using the reassessment valuation modeling on 2009 market sales and analyzing the new sales ratio study. The results showed statutory compliance with assessed values at 100% market value and coefficient of deviation cut in half. This created a more equitable distribution of the tax levy and reduced the risk of further appeal loss.

An application for reassessment was submitted in August of 2009. The re-engineered process had been tested and validated with acceptance of the stipulations by the County Tax Board. Furthermore, the budgetary crisis made it fiscally impossible to move forward with the traditional method of reassessment. Permission was granted by the State in November, and the reassessment completed in less than two months. Every property, neighborhood, and sale was reviewed. The net result was:

- $436M+ reduction in market value for the overall Township.
- A total overall cost savings of in house reassessment compared to outside contractor saved $328,000 in direct cost and $180,000 in future costs.
- Adjusting the assessments proactively reduced the potential loss in tax revenue of $8.2M.
- Time for completion was reduced to two months with coefficients of deviation from 6.64% prior to reassessment to 3.87% after reassessment.
- The cost for the County Budget and library funding was reduced by:
  - $100,000 in 2010 (2009 – 2010)
  - $190,000 in 2011 (2010 – 2011)
- Finally, stability was restored with tax appeal refunds dropping from:
  - $142,222 in 2009 to $27,413 in 2010 and $38,826 in 2011.

Based on the previous years of experience with trend modeling and more developed programs, Jefferson has now instituted an annual maintenance assessment program with full inspections of every property on a regular basis. Properties are upgraded to the most current market value ensuring dynamic changes in the market are reflected in the funding source for government. Annual reassessments stabilize the revenue source for budgeting. It also reduces long-term legacy capital reserves for unresolved multiyear tax appeals that linger in courts. In 2012 42% and in 2013 an additional 49% of all properties were adjusted to reflect the continued decline in value since the 2010 reassessment. The continual monitoring and maintenance of updated values has had a highly positive effect on overall cost to taxpayers. By having a more accurate valuation model:

- County taxes charged to Jefferson have been reduced by $955,846 annually since 2010 while over the same period the county budget has increased by $16,537,590
- In 2012, Jefferson's bond rating was upgraded to AA (S&P).
- Total loss in tax revenue for 2012 was less than $45,000, and for 2013 less than $17,000.

Summary

SPL has enabled Jefferson to dynamically align its revenue strategy with the economic environment as it drastically changed over the past 8 years. The framework, introduced with the 2006 revaluation, identified the key business drivers for a successful operational process that had never been thought of before. By focusing on fiscal business metrics, the project allowed for the introduction of technology and business process to deliver results much greater than the original plan called for. Not only has the valuation modeling been upgraded to allow for a much more efficient and effective implementation, the return on investment has yielded results never imagined prior to implementation. The city has now adopted the system to its other citywide initiatives, and has become a symbol of financial stability. Its taxpayers have become one the most satisfied groups of citizens in the State of New Jersey.