

# FAIR & equitable

MAGAZINE OF THE INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS

What's Next,  
Victims looking for a home  
could change face of city  
By Dan Feldstein,  
*Houston Chronicle*

## Hurricane Katrina

What lies ahead for IAAO members

Also:  
Disaster USA  
A perspective on  
the aftermath of  
Hurricane Katrina  
by Larry Stein

- **The Wildfire Summer of 2002**  
How one assessor's office responded to wildfires  
and the valuation challenges they created  
By Mark A. Reddy
- **The Role of the Assessor's Office  
in Tax Increment Financing**  
By John Ragan



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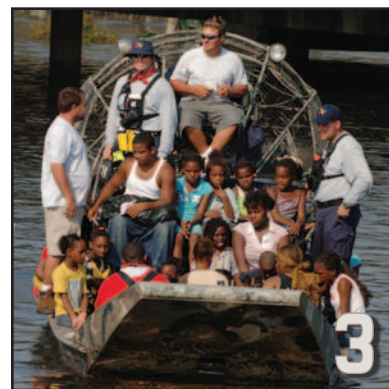
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Cover: New Orleans, LA, August 29, 2005—  
People sit on a roof waiting to be rescued after  
Hurricane Katrina struck. Photo by Jocelyn Au-  
gustino/FEMA. New Orleans, LA, August 31,  
2005—(above top) Residents are evacuated from  
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Firefighter photo (above middle) La Plata County  
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# The Wildfire Summer of 2002

## How one assessor's office responded to wildfires and the valuation challenges they created

By Mark A. Reddy

*(All photos in this article are from La Plata County government archives)*

The summer of 2002 witnessed some of the most devastating wildfires in Colorado history. Over 4,000 wildfires were reported that year, killing 9 firefighters, destroying nearly 400 homes, and burning about 620,000 acres. Nearly half of the damage was caused by five major wildfires. The two largest fires alone accounted for over 200,000 burned acres—the Hayman Fire in central Colorado destroyed 140,000 acres and the Missionary Ridge Fire in La Plata County burned 73,000 acres. Only once in every 100 to 200 years does a sustained drought create conditions dry enough and with a sufficient density of trees and underbrush for such widespread wildfires to occur.

The Missionary Ridge Fire began on June 9 about 10 miles northeast of Durango and burned 6,500 acres the first afternoon as the fire moved up the steep pine-covered slopes of the east Animas Valley to the top of Missionary Ridge. Over the next two weeks, the fire continued to burn out of control across federal, state, and private lands, consuming thousands of acres of pine forests and causing the evacuation of dozens of residential subdivisions. Then, on June 25, the Valley Fire broke out on the west side of the Animas Valley burning over 400 acres and destroying six homes within hours. The Valley Fire was contained and extinguished within a couple of days, but the Missionary Ridge Fire continued to burn until mid-July.

When the fires were finally over, one fireman had been killed, 56 homes and 27 outbuildings were destroyed, 2,300 people had been evacuated, and about 500 privately owned properties had sustained fire damage. A diversity of homes and residential neighborhoods were affected: from executive homes to starter homes, from ranch properties to residential subdivision lots, from year-round residences to seasonal resort cabins, from homes with frontage on the main paved road to those built on remote sites. Property damage ranged from partial ground cover loss to 100% loss of structures, trees, and ground cover. The burn area covered some 74,000 pine-forested acres, or 114 square miles, which is about 11

percent of La Plata County's total land area.

The fires stretched across 3 major river drainages and 36 tributary drainages, most falling 3,400 vertical feet within two to four miles. The loss of ground cover and soil absorbency, accumulated ash and debris, and steep terrain combined to create extreme flood and erosion potential. Moderate rainfall in July, August, and September brought flooding, erosion, ash, sediment, and debris that changed river channels, destroyed two homes and damaged more than ten others, washed out roads and utilities in some locations, and adversely affected municipal water supplies.

The Assessor's Office had been called in within days of the fire start to work with other county departments in the estimation of fire damage, but it soon became apparent that the public would be relying upon us far more extensively than we had expected or imagined for information about the value of their fire-affected properties. By August, we began receiving calls and visits from homeowners, real estate agents, and appraisers with inquiries about how the



*Emergency vehicles are kept a safe distance from this fiery backdrop as flames consume a dense stand of trees*



fires and floods would affect property values or what methodology would be used to establish values. This reliance became increasingly evident in early September with the establishment of the Assessor's Fire Adjustment Policy. Before long, we began receiving calls from appraisers, lenders, accountants, and even IRS auditors who had obtained copies of the policy and were inquiring about how to apply it to specific properties.

Like any assessing jurisdiction faced with an unexpected disaster and the valuation challenges it brings, we quickly realized that "none of us is as smart as all of us." During and since the fires, our office has gained much needed insight and perspective from other counties affected by wildfires, and has benefited from consultation with other appraisers wrestling with similar valuation problems in La Plata County and elsewhere. This article is an attempt to summarize the processes, procedures, policies, and thinking we used in addressing the fire and flood valuation issues in the hope that it will be helpful to others.

## Fire Damage Assessment

The Assessor's Office first became involved in the damage assessment process by providing the La Plata County Emergency Management Office and the Building Department with data on the residential and commercial structures in fire areas so that they could

begin documenting and estimating the damage. An appraiser from our office soon joined the initial damage assessment team in the field. During this initial assessment process, we were able to make general comparisons between structures as shown in our records and their condition as affected by the fire. We also provided ongoing estimates of value loss for destroyed structures. Those estimates were used, in part, to obtain assistance from the Federal Emergency Management Agency (FEMA) and other sources.

Following the initial damage assessment process, a meeting was held with representatives from the Emergency Management Office, Building Depart-

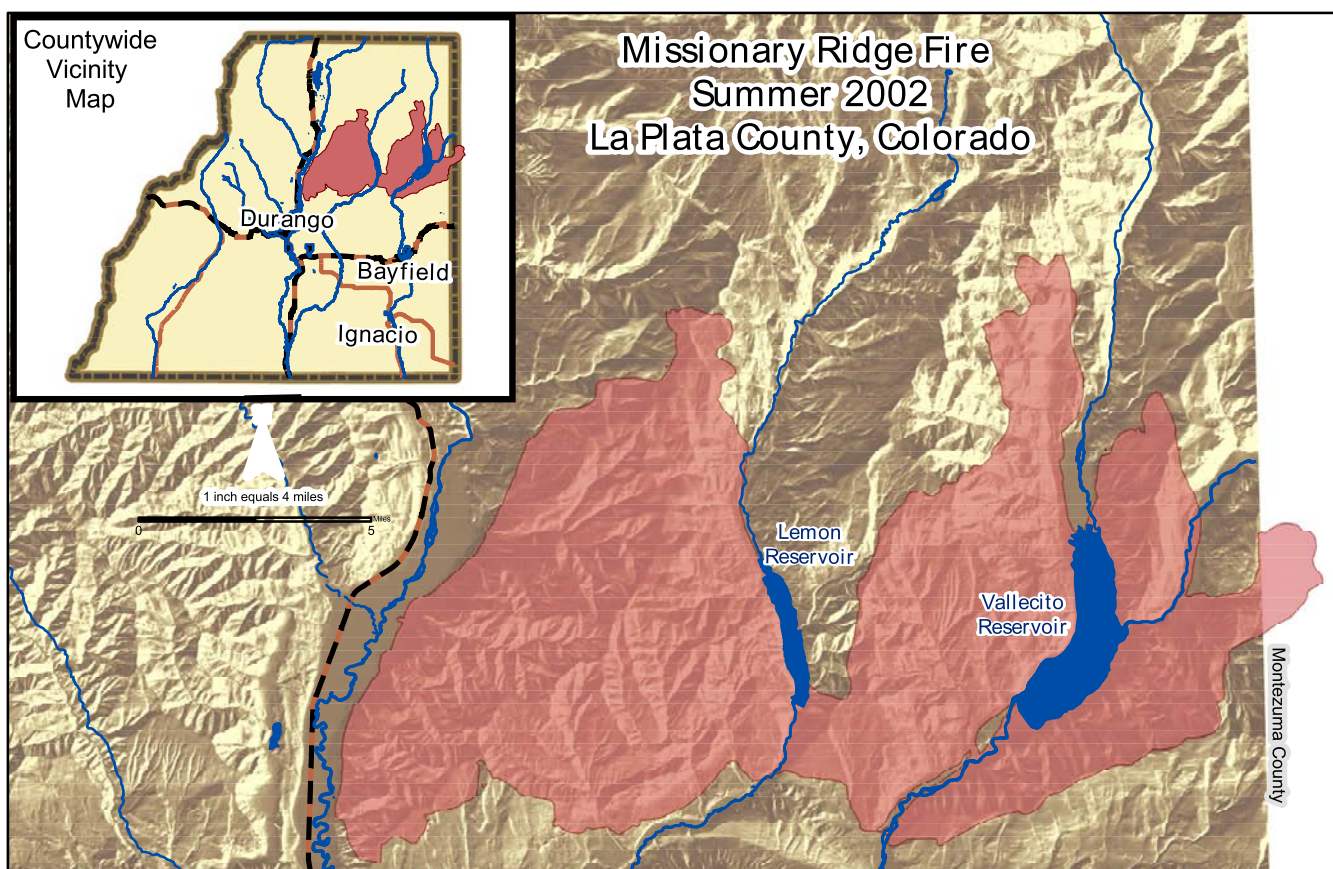
ment, GIS Department, Assessor's Office, and Public Information Office. The meeting was called to review how the initial response to the disaster was handled and what improvements might be made. As a result, a protocol was developed for coordinated action between the departments in responding to future disasters.

During the course of the fires and immediately afterward, our appraisal staff made their own field visits to conduct a more detailed inventory of the fire damage. Our first priority was to document damaged or lost residential living structures with property record cards, photographs, and field notes. Our second priority was to document



*Homes in the fires' path either were totally destroyed or were slightly damaged and thus easily repaired. The roads through the properties (photo top) appear to have acted as fire breaks stopping the ground fires before they could do more significant damage to the structures.*





fire damage to land with photographs, mapping, and field notes. We later compared our on-site observations with satellite-imagery burn-intensity maps that showed relative fire damage in relation to a parcel overlay which confirmed our findings. To aid in the data-collection process, we developed a basic property field assessment form. This form was later refined and expanded for use by initial damage assessment teams.

Once the full extent of the fire damage was determined, we devised a classification system for describing and quantifying damage to individual properties for valuation purposes. We were already using flag codes in our CAMA system to identify and group properties based on unique characteristics or status. We added a 23-character alphanumeric Fire Flag code to identify which wildfire affected the property; the date of impact; and the percentage loss to ground cover, trees, and improvements (i.e., houses, barns, sheds, and other structures). A Fire Flag code was attached to every fire-affected property account and became the basis for initial valuation adjustments and ongoing analysis of fire-affected properties.

## Initial Valuation of Fire-Affected Properties

### Quantifying Fire Damage

The effect of structure damage on property value was relatively simple to determine since buildings were either completely destroyed or had minor damage that was soon repaired. The effect of land damage on value was more complex because of the varying size and configuration of burn areas, the degrees of burn intensity, and the collateral effect on the value of the site's structures. We established four categories of fire damage, generally consistent with burn intensity ratings and satellite imagery, as a basis for classification and land valuation adjustments. Since most of the fire-affected properties were forested, we decided that tree loss was the best measure of fire impact for valuation purposes. The four basic groups were no tree loss, limited 0–25% tree loss, moderate 26–75% tree loss, and extreme 76–100% tree loss.

As the field assessment progressed, three basic facts were becoming increasingly evident to our appraisal team:

- 1) We don't know yet what the full physical/ecological impact of the fire damage is to a given property, but one year from now we should have a much better idea.
- 2) We don't know yet what the impact of fire damage will be on the market value of a given property, but one year from now we should have a much better idea.
- 3) Our present estimates of fire damage and market value impact on property will be educated guesses.

### Considering Market Factors and Forces

There were no qualified sales of fire-affected property in La Plata County until mid-October 2002, yet our office had to make valuation adjustments for tax year 2002 by mid-October. This presented a special challenge. The challenge increased when we had to carry out the state-mandated bi-annual reappraisal of all properties in the county as they existed on January 1, 2003, but with an appraisal date of June 30, 2002, which was in the middle of the burn. And, we could only use sales occurring from January 1, 2001, through June 30,



2002, for valuation. In short, we had to estimate the wildfire impact on market value of fire-affected properties without the benefit of comparable sales in La Plata County.

Fortunately, the county's assessor had been collaborating with other assessors from Colorado counties that had recently experienced or were then experiencing wildfires. Data was shared and analyzed, patterns and trends were evaluated, and methods of valuation were suggested and discussed.

A review of market data from other burn areas helped us understand five important factors:

- 1) wildfires did create detrimental conditions which had an adverse effect on property values;
- 2) larger acreages were not as adversely impacted as smaller acreages with limited building sites;
- 3) impact on and recovery of value varies with local market conditions;
- 4) offsetting amenities, such as views or river frontage, can lessen the adverse impact on value; and
- 5) not all factors affecting value impact and recovery can be isolated or analyzed.

While each of these factors informed our analysis of the wildfire impact on value in La Plata County, local market conditions were most significant. We

had been experiencing a strong demand for building sites and development property, with a steadily appreciating market. Therefore, we did not expect the wildfire impact to create a "fire sale" of vacant properties.

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***Like any assessing jurisdiction faced with an unexpected disaster and the valuation challenges it brings, we quickly realized that "none of us is as smart as all of us."***

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#### **Fire-Impact Adjustment Policy**

By early September, an office policy was developed to provide for a reduction in value of fire-affected properties for the 2002 and 2003 tax years, giving the benefit of doubt to the taxpayer. The reductions were based on the percentage of tree loss in burned areas and the size of the property. Parcels from 1 to 10 acres received the greatest reduction, parcels from 11 to 35 acres received a moderate reduction, and parcels over 35 acres received a limited reduction.

The discounts were prorated for 2002 based on a June 15 burn date, with the expectation that the full discount would be applied for 2003. To account for the collateral effect, or stigma, of vegetation damage on the value of improvements, an additional 10% reduction was applied to all structures on fire-affected properties, also prorated for 2002 with the expectation that it would be fully applied in 2003.

Properties where the residence was destroyed retained their residential classification for 2002 and 2003, thus maintaining the more favorable residential assessment rate of 7.96% compared to 29% for vacant land. Fire-affected properties with a preferential agricultural classification did not receive a land reduction but did receive the improvement reduction. Our policy called for a review of the adjustments made to fire-affected properties in light of market activity during each subsequent bi-annual reappraisal.

#### **Flood Damage Assessment and Valuation**

Rainfall after the fires caused both major and minor erosion, flooding, and debris deposits resulting in a range of damage to properties. The appraisal staff made field inspections of flood-affected properties to gain an overview of flood impact and to assess actual damage to specific properties. We did not attempt



*Soil in recently burned areas lacks the absorbency to hold rainwater. This factor, combined with steep slopes, allowed the rains in the months following the fire to cut this new channel through the barren landscape.*



*Some homes that had been spared the fire faced damage from flooding. This home narrowly missed disaster again when these boulders, carried by rainwater down the mountain, filled what was once a meadow.*

to map or identify every property impacted by flooding, erosion, or debris. Rather, any major loss of function or use of landscape, infrastructure, utilities, or structures was documented with notes, photographs, and a flag code placed on each account. Valuation adjustments were handled on a case-by-case basis and through taxpayer protests, and were generally made where there was a direct and immediate impact or continued threat of damage. No wholesale reduction in value was given to any group of flood-affected properties, as we had done with fire-affected properties. We also devised a classification system and a set of guidelines for valuation of flood-affected properties.

## Interim Valuation Changes

### 2003 Interim Changes

By January 2003, a half-dozen fire-affected properties had sold. These early sales indicated that our adjustments had been appropriate and accurately reflected the fire damage impact on value. Accordingly, we decided the prorated value reduction made in 2002 should remain at the prorated level for 2003. In other words, the prorated discounts made in 2002 for land and improvements did not need to be fully applied for 2003: thus, a 10% reduction in land and improvement value, prorated to a 5.4% reduction for 2002 would continue as a 5.4% reduction for 2003. With these reductions in place on



*This slope with its steep incline and lack of ground cover exhibits a dangerous potential for creating run-off flood damage.*

all fire-affected properties, the bi-annual reappraisal valuation changes for the June 30, 2002, level of value were applied for the 2003 tax year.

During the ensuing 2003 protest period, a few fire- and flood-affected parcels were re-visited and some additional adjustments were made to individual properties. For the most part, the prorated discount remained unchanged as a result of protest.

One protest involving a fire-affected property was appealed to the County Board of Equalization and then to the state Board of Assessment Appeals. At each level of appeal, the only issue was the amount of value reduction for fire impact and how it was determined through the Assessor's Fire Adjustment Policy. Both the County Board of Equalization and the Board of Assessment Appeals upheld our valuation.

In mid-summer 2003, appraisal staff revisited the Missionary Ridge and Valley Fire burn areas to note regeneration of ground cover, clearing of burned trees, removal of flood debris, and other reclamation efforts. Photographs were taken for documentation and comparison, many from the same vantage points as in 2002.

In the fall of 2003, the assessor established a general office policy for addressing value impact of natural disasters. This policy was based on the experience gained in valuing groups of properties and individual parcels over the last year and was designed to assist staff appraisers in deciding individual cases. The policy reviews statutory provisions for value adjustments, suggests steps to be taken in evaluating the nature of the disaster and its relative impact on value, and prescribes methods for effecting adjustments.

### 2004 Interim Changes

In April 2004, all fire-affected properties that had lost a residence in 2002 were reviewed to determine which ones were still being used residentially. Of the 56 homes lost, 25 had been rebuilt or had permits to rebuild and thus retained their residential classification. The 31 homes that had not been rebuilt or permitted to be rebuilt were reclassified as vacant land.

*(continued on p. 30)*



*The photo (left), taken from the east side of the Animas Valley near the origin of the Missionary Ridge Fire, shows the valley as it was immediately after the fire. The photo on the right shows the same area one year later.*



*(Wildfire, continued from p. 13)*

## 2005 Bi-Annual Reappraisal Fire-Affected Property Sales

By January 2005, there had been sufficient market activity to consider making some changes to the valuation adjustments on fire-affected properties for the June 30, 2004, level of value reappraisal. Between June 2002 and January 1, 2005, there were 50 sales of fire-affected properties of which 16 were improved with at least one major structure (12 qualified and 4 unqualified) and 34 were vacant (23 qualified and 11 unqualified). Our office could only consider those qualified sales occurring from July 1, 2002, through June 30, 2004, for reappraisal purposes. In this 24-month time period, there were 23 qualified sales (8 improved and 15 vacant). The sales prices were time adjusted to the appraisal date of June 30, 2004, where supported by time trend data analysis.

It should be noted that the fire-affected sales that were not qualified were unqualified for the same reasons that non-fire-affected sales might be unqualified, e.g., non-arm's-length transaction, partial interest, multiple parcels, agricultural classification, and so forth. The ratio between qualified and unqualified fire-affected sales was not significantly different than non-fire-affected sales.

The 8 improved and 15 vacant properties that sold were located in three different economic areas, each having its own particular economic influences on market value. The Animas Valley area just north of Durango (Econ 01) was affected by both the Missionary Ridge Fire and the Valley Fire with the burn area generally consisting of highly desirable forested residential sites. The Lemon-Vallecito Lake resort area 15 miles northeast of Durango (Econ 03) was affected by the Missionary Ridge Fire with the burn area consisting primarily of seasonal and year-round residential sites in a forested mountain and lake view setting with a few lodging and commercial sites. The North Florida Mesa area east of Durango (Econ 04)

was affected along its northern part by the Missionary Ridge Fire with the burn area consisting mostly of forested residential mountain subdivisions. Econ 01 had 2 improved and 2 vacant sales, Econ 03 had 4 improved (3 residential, 1 mixed use) and 11 vacant sales, and Econ 04 had 2 improved and 2 vacant sales.

### Improved Sales Findings

Of the 8 improved sales, one was a mixed-use property with two commercial structures totaling 5,852 heated square feet and a residence with 1,020 heated square feet, all on

1.074 acres with a time-adjusted sales price of \$415,000. The remaining 7 improved sales were residential properties ranging in size from 1,056 to 3,890 heated square feet on land ranging from less than .5 acres to 17 acres, with time-adjusted sales prices ranging from \$106,308 to \$571,560. A sales ratio analysis comparing the adjusted sales prices to the assessor's valuation indicated that our value for these sales was about 4% below the market. Countywide, our values were about 17% below market, and the average of the three economic areas was about 14% below market. Based on



*House consumed by flames illustrates the power and intensity of a wildfire out of control*



this data, our valuation adjustments for fire-affected improved properties required only a minor increase in value. Accordingly, we decided to remove the prorated 10% reduction for improvements (5.4% net reduction) on all fire-affected improved properties for the 2004 level of value.

### **Vacant Sales Findings**

The 15 vacant land sales ranged in size from .85 to 10 acres with 11 being under 1.5 acres. Their time-adjusted sales prices ranging from \$22,000 to \$300,000, with only 2 over \$100,000. A sales ratio analysis showed that our value for these sales was about 33% below market. Countywide, our values were about 35% below market, and the average of the three economic areas was about 31% below market.

On the surface, this data would indicate that fire-affected properties are valued consistently, relative to non-fire-affected properties in the county, and should be adjusted accordingly. However, the vacant fire-affected properties that sold were not representative of *typical* vacant fire-affected properties. Most had offsetting amenities, such as a view or high-demand location, or were located on the fringes of the burn area, which made these properties more desirable than most other fire-affected properties. We didn't have sufficient data to estimate how typical vacant fire-affected properties might differ from these more desirable fire-affected properties. Therefore, the reduced land value of fire-affected property was reappraised for the 2004 level of value using the same relative neighborhood adjustments as were used for the neighborhood to which a particular fire-affected property belonged. We made no changes to the 2002 prorated land reductions for fire-affected properties.

### **2005 Protest Period**

There were less than a dozen protests citing fire or flood damage as a reason for requesting a valuation review. Upon review, only a couple property values were adjusted. Since undervalued property owners seldom protest,

we can only conclude that the fire- and flood-affected properties have, for the most part, not been overvalued.

### **Conclusion**

The early, active, and collaborative involvement of an assessor's office is critical to the assessment and valuation process when responding to natural disasters. Natural disasters are, by nature, unexpected and disruptive. The problems they create are overcome or mitigated through collective action with each individual, agency, and organization playing their contributory role. The role of our office within this framework has become much clearer as a result of the Missionary Ridge and Valley Fires.

The impact of the wildfires and flooding on property values in our county has also become clearer since 2002 and will become clearer with each reappraisal cycle. It is the buyer who ultimately sets the market and, unlike the owner who has experienced the disaster's impact firsthand and knows what the property was like before, the buyer is most often seeing the property for the first time. It is the buyer's evaluation of a property's worth that will ultimately determine the impact of the fires and floods on property values in La Plata County.

### **Author's Note**

A 24-page document including all of the policies, classification systems, protocols, and sales data discussed in this article is available on-line from the La Plata County Assessor's Web site at <http://co.lapлата.co.us/asr.htm> or by sending \$7.00 (US) to the La Plata County Assessor's Office at P.O. Box 3339, Durango, CO 81302, USA. ■

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