



# JACKSON COUNTY

*Oregon*

## Internal Audit Report

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### Assessor's Office

May 14, 2015

Presented to the  
Jackson County Board of Commissioners  
by the  
Internal Audit Program

Audit Team

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Nicole Rollins, Senior Auditor



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**To:** Board of Commissioners  
**From:** Eric Spivak, County Auditor   
**Subject:** Audit of the Assessor's Office  
**Date:** 5/14/2015

The enclosed report presents the results of a performance audit of the Assessor's Office completed as part of the fiscal year 2014-15 audit plan.

The audit was conducted to determine if there is a process to ensure real market value is uniformly determined, to assess whether the ORCATS assessment software rewrite will meet the needs of Jackson County, and whether employee satisfaction has improved since the 2006 employee survey.

The audit team found:

- The Assessor's Office has a process to ensure real market value is determined in accordance with State law, however, there are areas to be improved upon.
- Steps have been taken to ensure that the rewrite project meets the needs of Jackson County, but at this point in the project it is too early to tell if the project will successfully accomplish its goals.
- The results of an employee survey show employee satisfaction has improved since 2006.

The report has been reviewed by the Assessor and the Assessment Operations Manager. They agree with the findings and recommendations and have already implemented some of the recommendations.

The report has also been reviewed by the Audit Committee.

The Internal Audit program appreciates the cooperation and assistance received from the Assessor, Operations Manager, and their staff throughout the course of the audit.

**C:** Audit Committee  
Joshua Gibson, Assessor  
Jo Wright, Operations Manager  
Moss Adams, LLP

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# Introduction and Background – Assessor’s Office

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## ***Introduction and Background***

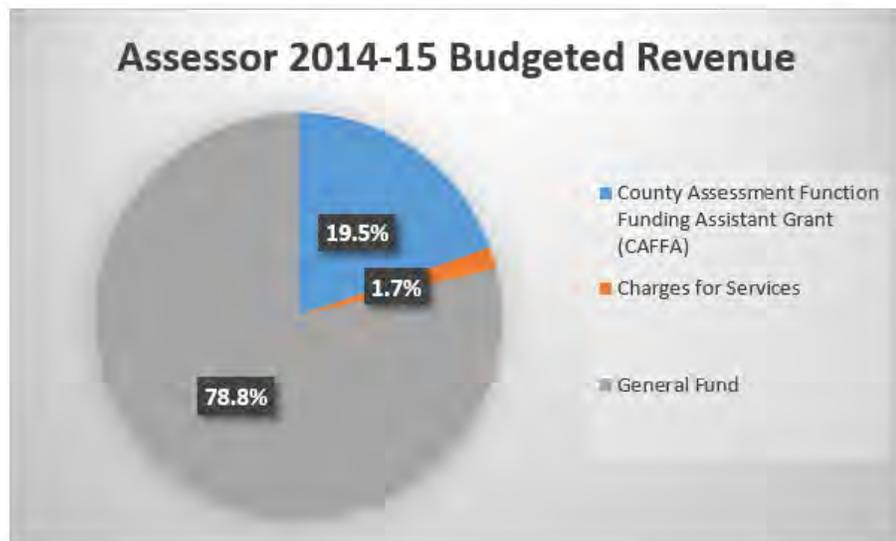
### **Overview of Assessor’s Office**

The Jackson County Assessor’s Office (Office) is a State mandated program that is responsible for ensuring that all Jackson County residential, commercial, business personal property, industrial land, and all industrial improvements valued less than \$1,000,000<sup>1</sup> are assessed and valued correctly in accordance with State law. For 2014, the total number of property accounts was 97,246 with a total taxable assessed value of \$17,767,035,507 for Jackson County including urban renewal.

Based on the \$17.8 billion of total assessed value, the total taxes levied for all districts within Jackson County for 2014 was \$263,388,484 which equates to about 1.5% of total assessed value. Jackson County’s share was 13% or \$35,276,775 of the levied taxes. The remaining 87% or \$228,111,709 was apportioned between the cities, school districts, urban renewal, community college, and special districts. Historically, approximately 95% of the taxes levied are collected within the same fiscal year.

## ***The Assessor’s Office is funded mostly with County General Fund***

In fiscal year 2014-15 the Assessor’s Office received about 80% of its funding from the County General Fund, about 20% from the State, with a small amount of revenue also coming from charges for services and other reimbursements. State funding comes from the Oregon Department of Revenue County Assessment Function Funding Assistant Grant (CAFFA), which provides funding for counties to help them maintain compliance with State laws. CAFFA grant funds are also distributed to the County’s Treasury & Taxation Office and the Clerk’s Office.



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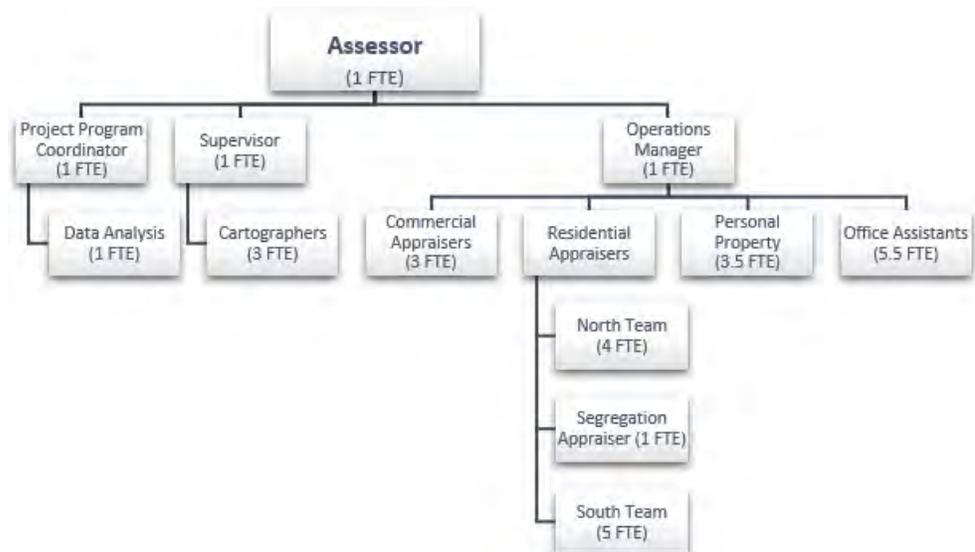
<sup>1</sup> The Department of Revenue is responsible for the appraisal and valuation of all industrial properties valued over \$1,000,000.

The Office operates with a budget of about \$3.6 million and 30 full time equivalents (FTE). The budgeted staffing level for fiscal year 2014-15 was reduced by 1 FTE because the oversight of the senior deferral and veteran’s exemption programs was moved to the Treasury & Taxation Office to help improve the accessibility and visibility of these programs for the citizens of Jackson County.

The table below provides a snap shot of the budget and staffing levels for the current year and the actual amounts for the prior two years. For the fiscal year 2014-15 adopted budget, the personnel costs account for 66% of total expenses and materials/services for the other 34%. Over half of the materials and services costs are related to internal service charges, such as services related to human resources and information technology.

	<b>FY 14-15 Adopted Budget</b>	<b>FY 13-14 Actual</b>	<b>FY 12-13 Actual</b>
<b>Revenue</b>			
General Fund	\$2,850,173	\$2,277,420	\$3,040,706
CAFFA	\$705,414	\$763,415	\$868,953
Software Reimbursement	\$0	\$340,000	\$0
Charges for Services and Other Reimbursements	\$61,920	\$85,087	\$49,547
<b>Total Revenue</b>	<b>\$3,617,507</b>	<b>\$3,465,923</b>	<b>\$3,959,206</b>
<b>Expenses</b>			
Personnel Services	\$2,397,901	\$2,188,293	\$2,416,965
Materials & Services	\$1,219,606	\$1,168,821	\$1,038,188
Equipment/Machinery			\$5,322
Software		\$108,808	\$498,732
<b>Total Expenses</b>	<b>\$3,617,507</b>	<b>\$3,465,923</b>	<b>\$3,959,206</b>
Full Time Equivalent (FTE)	30	31	33

The Assessor is an elected official. For fiscal year 2014-15 the Assessor’s Office budgeted staffing consisted of the following:



## **Assessment Software**

Jackson County uses the Oregon Counties Assessment and Taxation system (ORCATS) for managing property assessment and tax administration. The system was developed to meet the laws and requirements that govern the Oregon Property Tax System. The original application was developed to support Polk County. In 2001, Tillamook and Polk County enhanced the system. In 2002, Jackson and Deschutes joined the consortium. Since then the consortium has been expanded to include the following Counties: Columbia, Coos, Deschutes, Harney, Hood River, Jackson, Jefferson, Linn, Morrow, Polk, Tillamook and Umatilla. Jackson County left the consortium in 2011 to pursue another option but returned to the consortium in 2014.

Ownership of the software application is being transferred from the consortium to Helion Software, Inc., a company formed by the individuals involved in the development of the software. The transfer began in 2013 and will occur over a five year period. During this five year period, the majority of the software will be rewritten based on feedback provided by the Counties. Per the agreement with Helion, the Counties will receive a percentage of the sales revenue to offset their software costs through June 30, 2023.

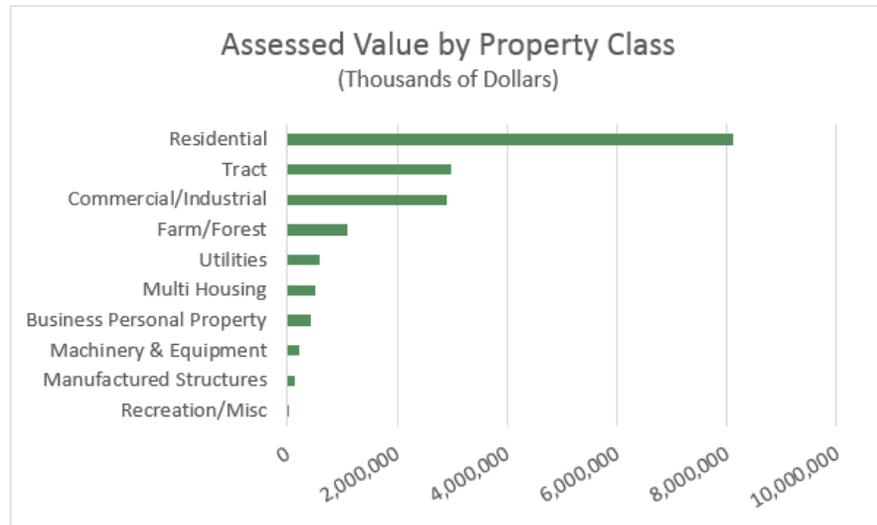
## **Organization of Land and Property Type**

For purposes of managing the property assessment function, the Assessor's Office has divided the County into seven areas referred to as maintenance areas<sup>2</sup> (See Appendix A for a map of the County). These areas are further delineated into study areas. For each study area, the Office determines the real market value of existing properties as of January 1<sup>st</sup> of each year. The Office also determines the value for all new construction and projects that improve existing properties each year. Recalculation is one method used to ensure the accuracy of real market value of properties is maintained. Since 2006, the Assessor's Office has been focused on recalculation of Jackson County residential properties and commercial properties (Further discussed on page 18). For residential properties, four of the seven maintenance areas have been recalculated since the project began in 2006. Currently, the focus is on completing the recalculation of areas within the other three maintenance areas, specifically South East Medford, Phoenix and Talent, and the City of Rogue River.

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<sup>2</sup> The Assessor's Office uses a maintenance area eight reference to identify unimproved forest land, however, the land is physically located within maintenance areas one through seven. A goal of the Assessor's Office is to re-categorize these lands in the assessment software from maintenance area eight to the maintenance area that the land is physically located in.

Property is also classified by type, as shown in the chart below.



### Organization of Staff

Appraisers are assigned to teams based on the type of property they assess. The types include:

- **Residential** – About 80,000 of 97,000 property accounts are residential and they account for about 50% of the property value in the County. Residential appraisal staff are divided into north and south teams. The north team is assigned four of the seven maintenance areas, which together have about 44,500 property accounts. The south team covers the remaining three maintenance areas which together have about 35,500 accounts.

The residential teams perform physical inspections of properties when there is new construction<sup>3</sup>, a special assessment on farm and forest, when an area in the County needs to be reappraised (e.g. “hot-spot”, recalculation), and other reasons such as a review based on property owner inquiry. Currently in preparation of the 2015 tax year, the residential appraisers are working on physically inspecting approximately 4,000 accounts that are new improvements and existing properties where a permit was pulled within the last year. The number of accounts to be physically inspected have been increasing over the last few years.

- **Commercial** – The term “commercial property” is used for buildings or land that is intended to generate a profit. There are approximately 7,700 commercial and industrial accounts in Jackson County. Of these, physical inspections were made of 480 accounts, which included new improvements and existing properties that had a permit pulled.

<sup>3</sup> New construction is a new structure(s) added to the current assessment roll or value added by completion of construction, remodeling, renovation or other physical improvement of existing property.

The commercial team has also been working towards reappraising properties and developing tables of property information. For example, instead of going into each account separately to change land values the land values for different classifications of property would be in a table. Therefore, you would change the table and in turn the software would change the land values for each account within that classification.

The Helion software (ORCATS) was not able to handle commercial accounts until about 2009 and full functionality of the software in regards to commercial appraisal is still a future goal of Jackson County and Helion. To date, approximately 2,320 accounts from motel/hotels, mobile home parks, apartments, offices, and industrial land have been tabled. The goal for 2015 is to table commercial land values, which impacts about 3,500 accounts.

In addition to the appraisers, which account for 13 of the budgeted 30 FTE, the Office employs staff in four other functional areas that are described below:

- **Business Personal Property** – A taxpayer is required to provide an annual self-report listing business personal property to the Assessor’s Office. The Office uses the information provided by the taxpayer and other available information such as comparisons of similar businesses and accepted appraisal methods, to determine value. The program has recently made available electronic filing to a select group of taxpayers to file their annual returns online. Furthermore, the Office is in the beginning phase of developing a process to ensure complete and accurate reporting of business personal property by applicable taxpayers (Audit Program is discussed in Chapter 4). There are approximately 3,460 personal property accounts which equates to about \$438,182,060 in taxable value. This results in approximately \$7 million in taxes levied, which is about 3% of all taxes levied.
- **Data Analysis** – The analysts maintain the completeness and accuracy of the appraisal information in accordance with State law. This is accomplished through the completion of the required annual ratio study, recalculation of properties, review of property sales information to be used in the ratio and recalculation process, analysis of real estate market trends, and analysis/monitoring of areas of the County that require further action (a.k.a “hot-spots”).
- **Cartography** – The Cartography program maintains property lines, ownership records and taxing district boundaries within Jackson County. The program processes and identifies on average 35 new deeds per day. This average has fluctuated over the last four years with an overall uptick since 2011. Cartographers also review the request for a rural fire protection district, review and approve subdivision and partition plats, process requests to remove names from the assessment ownership records for

safety purposes (e.g., public safety officer), create aerial maps with tax lot boundaries, perform the preliminary review of sales documents, and provide customer service to the public, the Office and to other County departments.

- **Office Assistants** – The office assistants assist with recording permit information for the purpose of determining if the property needs to be physically inspected, filing floor plans, customer service, entering data into the assessment software, scanning information into the Office’s electronic system, and supports other programs within the office (residential, business personal property, exemptions, commercial, cartography, farm and forest, and manufactured structures).

***Can an appeal of a properties real market value be made?***

**Board of Property Tax Appeal (BoPTA)**

Property owners have been able to appeal the value of their property since 1907, when the Oregon Legislature enacted laws that created boards of equalization, now known as Board of Property Tax Appeals (BoPTA). The County Clerk handles all administrative duties of BoPTA. BoPTA hears appeals over the value of property, including real market value and maximum assessed value<sup>4</sup>. Also, BoPTA can consider requests to waive penalties assessed for the late filing of real and personal property returns.

The burden of proof at the hearing lies with the property owner. For example, the property owner must provide evidence of the market value of the property as of January 1<sup>st</sup> of the assessment year. This could include providing comparable property sales that occurred close to January 1<sup>st</sup>.

December 31<sup>st</sup> is the last day the Assessor’s Office can change<sup>5</sup> the certified real market value of a piece of property or correct the maximum assessed value because of an error in square footage. December 31<sup>st</sup> is also the last day an appeal can be filed with BoPTA.

During fiscal year 2011-12, the Assessor’s Office started what was referred to as a “review panel.” The purpose of this panel is to bring consistency to changes made prior to December 31<sup>st</sup>, lower the number of BoPTA hearings, identify “hot-spots” or problem areas in the County, and to improve customer service. Prior to or after filing a BoPTA hearing application, property owners can bring their concern to the Assessor’s Office which then convenes the review panel. The review panel meets to hear an appraiser’s review and research over the concerns brought by a property

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<sup>4</sup> BoPTA has the authority to hear appeals over how the maximum assessed value was calculated.

<sup>5</sup> Value changed due to correcting error(s) or for the omission of property. Also, if an application is made to BoPTA and the review panel and the property owner agree to make changes to the property, prior to BoPTA convening, then a stipulation can occur.

owner. The review panel makes a decision to update the property value. If the review panel does not agree that the value should be updated, the property owner can still file an appeal with BoPTA by December 31<sup>st</sup>.

The number of BoPTA appeals varies from year to year but has decreased during the last two years, as depicted below. Various factors may have contributed to the decline. The housing market seems to be stabilizing, the Assessor implemented the review panel as discussed above, and in 2012 the Clerk’s Office implemented a fee for BoPTA hearings.

<b>Tax Year</b>	<b>Net Accounts Appealed</b>	<b>Accounts with Real Market Value Adjusted</b>	<b>Accounts with Assessed Value Adjusted</b>
2008	369	265	208
2009	601	463	343
2010	427	365	287
2011	761	575	460
2012	279	188	162
2013	168	107	87

BoPTA hearings are held to determine the value of property, which is an issue separate from that of property taxes. Even if the real market value of a piece of property is lowered by BoPTA, it does not automatically result in a reduction of property tax.

**Oregon Property Tax Law and a History Lesson**

Prior to 1991-92, property tax was calculated using the property’s real market value<sup>6</sup>. In 1991-92 limits were placed on the taxes imposed on individual properties through the approval of Measure 5. As a result, currently there is a tax ceiling of \$15 per \$1,000 of real market value<sup>7</sup>, which includes:

- School Taxes - \$5 per \$1,000 of real market value
- General government (operating not bonds) taxes - \$10 per \$1,000 of real market value

***What value is used to determine property taxes?***

In 1997, Measure 50 was passed with the purpose of reducing the property taxes in 1997-98 and to control the future growth of taxes. This was accomplished by separating the property’s real market value from its assessed value.

<sup>6</sup> Oregon had a pure levy-based property tax system. Each taxing district calculated its own tax levy based on its budget needs. Most levies were constitutionally limited to an annual growth rate of 6 percent, and levies that would increase by more than 6 percent required voter approval.

<sup>7</sup> This is referred to as compression.

In essence, Measure 50 was trying to limit the year-to-year increase of a property's tax, regardless of how much the real market value increased.

The following are the definitions of a few key terms used when determining taxable value:

- **Assessed (taxable) Value (AV)** – This is the property's **taxable** value, and is the **lesser** of the real market value (RMV) or the maximum assessed value (MAV).
- **Real Market Value (RMV)** – The real market value is the amount that reasonably could be expected to be paid by an informed buyer to an informed seller, each acting without compulsion in an arm's length transaction on January 1<sup>st</sup> of the assessment year. So, for the 2014 tax year the real market value of a piece of property is as of January 1, 2014, even though taxes are not due until November 2014.
- **Maximum Assessed Value<sup>8</sup> (MAV)** – This value is equal to the **greater** of 103% of the prior year's assessed value or 100% of the prior year's MAV.
  - For existing properties in 1997 the MAV was equal to 90% of the 1995-96 real market value.
  - For new properties after 1997 the MAV equals the properties real market value multiplied by the ratio (not greater than 1) of the average maximum assessed value over the average real market value of similar existing unchanged properties. For example, if the real market value of a new house was \$100,000 and the ratio was .85 then the MAV of the improvement would be \$85,000.

Because the assessed value is the **lesser** of the real market value (RMV) or the maximum assessed value (MAV) and because the year the house was built can impact the MAV, two similar houses located on the same street may be taxed different amounts. The scenario below, which uses 2 Jackson County homes, exemplifies how this occurs:

**Example**

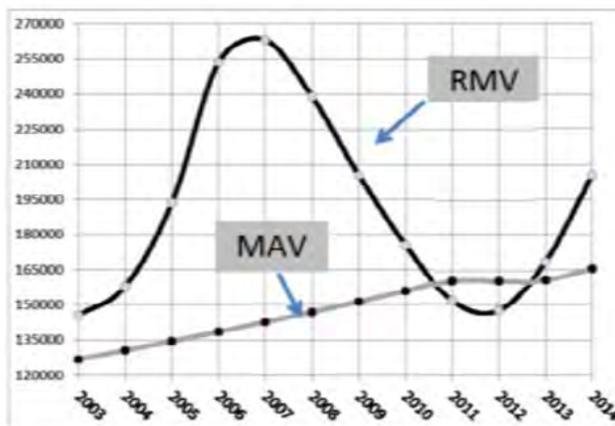
*House A, built in 1996 was taxed \$5,003 in 2003. A neighboring house (House B), built in 2002, paid \$518 less (\$4,485) even though House B had a RMV that was \$610 higher than House A's RMV. This occurred because in 2003 market conditions were such that for both houses the MAV was lower than the RMV and, therefore, each was taxed according to its MAV. House A, built in 1996, had a higher MAV than House B, which was built in 2002.*

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<sup>8</sup> MAV can be adjusted above the 3% under certain circumstances allowed by State law.

*During the 12 year period from 2003 to 2014, House A paid about \$4,000 more than House B, with the annual difference fluctuating between seven dollars to over \$500. This occurred even though the slight difference in the RMV of the two houses stayed pretty consistent. Property taxes are based on the MAV, when it is lower than the RMV, and therefore House A's higher MAV resulted in it having a higher tax burden than House B.*

Many individuals have been surprised when a decrease in their property value did not result in a decrease in property tax. This occurs when an individual might be unaware of the Measure 50 requirement that the assessed value be the lower of the RMV or the MAV. As depicted in the graph below, the RMV can drop but still remain higher than the MAV and, thus, not impact taxes.



Source: Jackson County Assessor's Office website

Similarly, confusion occurs when taxes increase by more than 3% from one year to the next. The chart on the next page follows the changes in RMV and MAV of a property from 2007 to 2014. In 2010, the RMV dipped below the MAV and therefore served as the assessed value. The RMV stayed below the MAV for the next 4 years and therefore continued to serve as the assessed value. When the market rebounded, the RMV of this property jumped from \$297,450 one year to \$351,450 the next year, which was still lower than the MAV. Therefore, the assessed value also jumped from \$297,450 to \$351,450 which resulted in an 18% increase to the assessed value.

The limitation established by Measure 50 is that the MAV cannot increase by more than 3%. When the MAV is lower than the RMV, the MAV serves as the assessed value and therefore the 3% limitation is imposed. However, as demonstrated in the example on the next page, there is no limit in the amount that the RMV can increase or decrease. Therefore, if the RMV is lower than the MAV the assessed value can fluctuate more than the 3%.

<b>Tax Year</b>	<b>Real Market Value</b>	<b>Maximum Assessed Value</b>	<b>Assessed Value</b>	<b>Assessed Value % Increase</b>	<b>Value Taxed On</b>
2007-08	522,540	324,590	324,590		MAV
2008-09	444,370	334,320	334,320	3%	MAV
2009-10	359,940	344,340	344,340	3%	MAV
2010-11	333,160	354,670	333,160	-3%	RMV
2011-12	314,770	354,670	314,770	-6%	RMV
2012-13	302,700	354,670	302,700	-4%	RMV
2013-14	297,450	354,670	297,450	-2%	RMV
2014-15	351,450	354,670	351,450	18%	RMV

***Audit Authority***

We conducted our audit in accordance with Codified Ordinance 218 pertaining to the County Auditor. Our audit was included in the fiscal year 2014-15 Internal Audit Plan.

***Compliance with Government Auditing Standards***

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

***Confidential or Sensitive Information***

We did not withhold any information from this report because it was considered confidential or sensitive.

***Audit Objectives***

The objectives of the audit were to determine:

1. Is there a process to ensure real market value is uniformly determined?
2. Is the ORCATS assessment software rewrite going to meet the needs of Jackson County?
3. Has employee satisfaction improved since 2006 (an internal audit of the Assessor’s Office conducted in 2006 included an employee survey)?

***Audit Conclusion***

1. The Assessor’s Office has a process to ensure real market value is determined in accordance with State law, however, there are areas to be improved upon.
2. Steps have been taken to ensure that the rewrite project meets the needs of Jackson County, but at this point in the project it is too early to tell if the project will successfully accomplish its goals.
3. Employee satisfaction has improved since last surveyed in 2006.

**Audit Scope and Methodology**

The scope of the audit focused primarily on activity in the last six months unless specified otherwise in the report. Primary focus was residential properties because about 80,000 of 97,000 property accounts are residential and they account for about 50% of the property value in the County.

Audit procedures included:

- Interviewing assessment staff and management.
- Participating on ride-alongs for residential and business personal property.
- Analyzing assessment data.
- Reviewing a sample of properties.
- Reviewing the 2014 ratio study.
- Reviewing the methodology of the recalculation process.
- Attending monthly meetings between Jackson County and Helion, and a rewrite design meeting.

**Audit Criteria**

Criteria consisted of Oregon Revised Statutes which govern the State of Oregon property tax system, and related Oregon Administrative Rules; Department of Revenue guidance, such as the Appraisal Methods Manual and the Assessor’s Certified Ratio Study Procedures Manual; and information from the International Association of Assessing Officers (IAAO).

**Summary of Audit Recommendations**

We recommend the Assessor’s Office:

**Chapter 1 – Is There a Process to Ensure Real Market Value is Uniformly Determined?**

1. Establish written internal procedures that document the parameters (limits and thresholds) the Assessor’s Office (Office) uses in conjunction with the ratio study measurement tools (sample size and confidence interval) established by the Department of Revenue to help assure consistency year-to-year.
2. Propose to Helion that the “Percent of Similarity” (Explained on page 14) test be incorporated into the assessment software rewrite. Also, put emphasis on having the capability to modify the sales confirmation questionnaire as part of the rewrite. (The Assessor’s Office is currently working on modifying the questionnaire)
3. Modify the ratio study introduction each year to better document the decisions made by the Assessor’s Office. The following are examples based on review of the 2014 ratio study:
  - a. Explain why areas of Jackson County and/or property classes were combined.
  - b. Update the adjustment factor description regarding land and onsite development so that the description provided mirrors current practice.

- c. Rewrite the time adjustment section so that it provides clarity regarding changes made or not made based on the movement of the market over time.
4. If an automated process cannot be implemented to ensure that the right real market value is used in the ratio study, continue to use the manual review process. However, if no more incorrect values are identified the Office should then consider removing the manual review step.
5. Have one individual enter the results of the ratio study into the assessment software and another to review that input. (The Assessor's Office has already designed this control)
6. Implement the following internal controls over the recalculation process: (The Assessor's Office has already designed these controls)
  - a. Add comments to the spreadsheet tool so that the rationale of subjectively applied values are documented.
  - b. Maintain documentation of the after ratio study.
  - c. Implement process to verify the accuracy of manually-entered data into the assessment software.

#### **Chapter 2 – Is the ORCATS assessment software rewrite going to meet the needs of Jackson County?**

7. As other components of the assessment software are rewritten, take full advantage of the best practices that are written into the contract between the Counties and Helion.
8. Maintain a complete list of rewrite ideas submitted to Helion to help coordinate discussions during the design meetings and to ensure ideas are not forgotten.
9. Make sure that the fiscal year 2015-16 contract with Helion specifies that the hours paid for but not yet used will roll forward to 2015-16. We also recommend that if the 2015-16 contract include an agreement to purchase additional hours, the purchase should be established as a not-to-exceed number of hours to be paid for when used. (The Assessor's Office is working on this recommendation)

#### **Chapter 4 – Other Relevant Information Identified During the Audit for Consideration**

10. Consider evaluating cost information to help drive decisions over the development of the business personal property audit program.
11. If the plan to transfer the collecting and cleaning of electronic permit information (received from certain cities and the Jackson County Development Services Department) from the Jackson County Information Technology Department to the Assessor's Office materializes, consider evaluating possible ways to further streamline the review of electronic permit information.

# Chapter 1 – Is there a process to ensure real market value is uniformly determined?

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The Assessor's Office determines real market value in accordance with the process established by the Department of Revenue (DOR) and allowed by State law for a mass appraisal program. Nevertheless, we did identify opportunities for improvement that will help enhance internal control and possibly increase transparency.

An effective mass appraisal process allows a large quantity of properties to be valued uniformly and equitably. The process can be broken into the following three methods that are allowed to be performed in Oregon to maintain an accurate real market value.

- Ratio study – Oregon Revised Statute (ORS) requires an annual ratio study to be completed. Furthermore, ORS mandates that property is to be valued at 100% of its real market value.
- Physical reappraisal
- Recalculation – In 2006 the Assessor's Office, with the help of DOR, completed the first large scale recalculation/reappraisal effort since 1995.

The three methods are discussed below. Opportunities to improve internal control and increase transparency are included within each discussion.

## **Ratio Study**

A ratio study takes useable property sales and compares the sales price to the prior year's real market value of those properties. For example, if the recent sales in Shady Cove were showing that the sales prices were 10% higher than the real market value of those properties as of the prior January 1<sup>st</sup>, then all properties within that area would have their real market values increased by 10% to reflect the true real market value of the properties as of January 1, 2014.

The Assessor prepared the 2014 ratio study in accordance with the Department of Revenue (DOR) Ratio Study Procedure Manual and related Oregon Administrative Rules. DOR, which reviews and then provides a letter to the Assessor documenting its review of the annual ratio study, reported no findings nor did it have any recommendations for the 2013 and 2014 studies. Similarly, we reviewed the 2014 preparation of the ratio study and also found it compliant with the DOR procedure manual. We did not review the 2013 or earlier ratio studies.

Though the ratio study is compliant with DOR requirements, we did identify areas for improved as discussed on the next page.

***Establishing written parameters would be beneficial***

The results of the ratio study are reviewed by the Assessor and shared with the Lead Appraisers before being finalized. However, establishing written internal procedures that document the parameters (limits and thresholds) that are being used in current practice, or the development of different limits and thresholds, would help assure consistency from year-to-year, especially if there are staffing changes. While the Department of Revenue (DOR) requires the tools to be used, the parameters are to be established by each county based on the unique characteristics of the area being studied.

The two tools for which written guidance should be developed are:

- **Sample Size** – The DOR manual requires that a sufficient sample of useable property sales be used when performing the ratio study. The manual does not establish a specific sample size because factors such as the number of sales and the degree of similarity of the sales to the area being studied need to be taken into consideration. The Office should establish written guidance for ensuring the sufficiency of sample sizes used in performing the ratio study.
- **Confidence Interval** – Similarly, guidance is needed to ensure consistency in determining whether the calculated confidence intervals are appropriate or whether further analysis is needed to ensure that the sample is reliable.

As part of the rewrite project, the assessment software should be configured so that an automated “Percent of Similarity” test can be performed in conjunction with the confidence interval tool. The “Percent of Similarity” test, as prescribed by DOR, is used when determining whether the sample is representative of the entire population of the area being studied. The underlying principle is that if at least 80% of key characteristics (e.g., real market value, quality class, square footage, etc.) are similar then the sample can be considered representative of the population.

***Additional information should be added to the ratio study***

Each year the ratio study introduction should be modified to reflect the decisions made by the Assessor’s Office when ensuring that all properties are being valued at 100% of real market value. The following are examples based on the review of the 2014 ratio study:

- **Explaining why areas of Jackson County and/or property classes (e.g., land and improved property) were combined** – As allowed by DOR, the Assessor’s Office chooses to combine property classes and market areas. This occurs when the sales ratios for these classes fall within the same array (i.e., the market for these properties are moving in the same direction) and a preliminary analysis was conducted to ensure that the changes applied to the real market value were not skewed. When property classes and or market areas are combined, we recommend that the report reader be informed by a statement such as “Throughout the County some areas

and/or property classes were found to have moved in such a similar manner in the market that they were combined. This was also done to help increase the number of sales used to improve the reliability of the ratio study.” Inclusion of this information may also be helpful to those tasked with preparing subsequent ratio studies.

- **Updating the description regarding Land and OSD (onsite development) adjustment factors so that the description mirror current practice** – A decrease in the number of bare land sales resulted in a change of practice. However, the ratio study still references the old practice of calculating the bare land sales factor separately and then using that factor to update the value of improved lands as well. It should be updated to reference the current practice of combining land and improvement sales if the sales are moving in the same direction.
- **Rewriting the Time Adjustment section so that it provides clarity regarding changes made or not made based on the movement of the market over time** – Presently, there is a section that defines what a time adjustment<sup>9</sup> is and each area studied does include a graph for visual representation. However, the section doesn’t include what we would consider a “true” conclusion that documents why or why not an adjustment to the movement of value was or was not made based on current practices. Currently, other techniques (e.g., straddling and trimming of sales) are being used instead of a time trend analysis, these techniques are explained in other sections of the study or are done behind the scene. To help improve readability of the study, the time adjustment section should provide an overview of the other techniques used and the results and conclusions derived from using these techniques. The time adjustment definition states “A time adjustment is not used unless a significant amount of sales occur each quarter.” If this part of the definition is still needed, consider clarifying how many sales are considered significant<sup>10</sup>.

Furthermore, the Office noted that the assessment software currently doesn’t provide the ability to modify the ratio factor based on the results of a time trending analysis. As part of the software rewrite, this functionality is planned to be included.

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<sup>9</sup> The ratio study states the following: *A time adjustment is a change made to a sale price to reflect what the property would have sold for as of the assessment date. For a time trend, the Assessor uses a linear regression formula, by quarter, which is displayed at the bottom [of] each Study Area analysis under the Central Tendency graph. A time adjustment is not used unless a significant amount of sales occur each quarter.*

<sup>10</sup> The Department of Revenue Ratio Study Procedure Manual states that “...20 sales per period have been used as an acceptable guide.”

***The Assessor's Office  
is working on the  
following  
improvements***

During our review of the ratio study, we identified other opportunities for improvements. The Assessor's Office is addressing or plans to address these opportunities, which include:

- **Rewriting the Sales Confirmation Questionnaire to improve clarity** – The questionnaire is a tool used to help complete the statutory requirement that county assessors review all property sales and verify the accuracy of reported sales information. Purchasers of property are sent the questionnaire into which certain details of their purchase have been inputted. The purchaser is asked to verify the accuracy of the details and answer questions used to determine whether the transaction was conducted at arms-length, and so forth.

The questionnaire is a template built into the assessment software, and currently the Assessor's Office does not have access to change this template in the software. It is planned, as part of the assessment software rewrite, that the Office will be able to change this template as needed. Based on discussions with assessment staff, being able to change the questionnaire would be beneficial. We concur that there is a need to change the questionnaire to help decrease the likelihood that a member of the public would misinterpret any of the questions.

- **Adding a review step within the process so that certain work performed by the Project/Program Coordinator is reviewed by the Data Analyst and visa-versa**

*Real Market Value*

Our review identified that the real market value for one property sale was incorrect. The cause could not be determined. The Project/Program Coordinator reported that a review step will be added to reduce the likelihood that an incorrect real market value will be used when performing the ratio study. This step will also add the secondary benefit of continuing to cross-train the Data Analyst to perform the ratio study.

As the cause of the incorrect value cannot be identified, we concur with the plan to add the review step but we also recommend that the Office also explore whether an automated function, such as an error report, be developed so that the task does not need to be manually performed. If an automated process cannot be implemented, we recommend that results of the manual review be monitored. If no more incorrect values are identified, the Office should then consider removing the manual review step.

*Adjusting Real Market Value*

Our review identified a process weakness, which contributed to the real market value of 18 condominium accounts not being increased as reflected by the results of the ratio study. It should be noted that no property owners

were negatively impacted. The result was that 2 of the 18 accounts were undercharged by a minimal amount that decreased the total property tax collected by less than \$100.

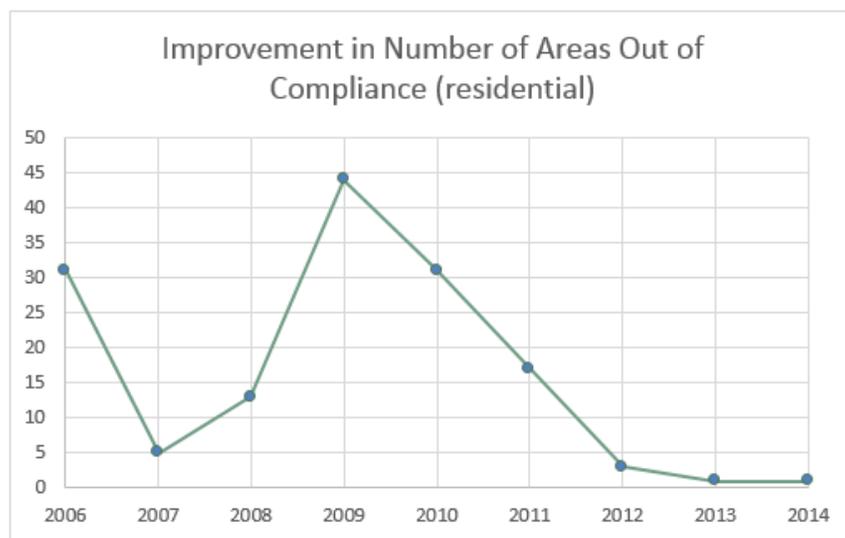
To improve the current process, the Project/Program Coordinator reported that one individual will enter the results of the ratio study into the assessment software and another will review the input. Also, the Project/Program Coordinator provided Helion with a suggestion for the assessment software rewrite that could help improve the process for adjusting real market value based on the ratio study results.

***The Assessor's Office has improved compliance with the Coefficient of Dispersion (uniformity of real market value)***

In addition to its use in adjusting real market values, the annual ratio study is conducted to ensure that uniformity and equitability among properties is achieved when determining real market values. Doing so involves the use of many statistical measurements. One such measurement, is referred to as the Coefficient of Dispersion (COD) which is used to determine the uniformity of real market values for a given property class (e.g., vacant land, rural land, etc). DOR establishes compliance thresholds for this measurement. Moreover, if noncompliance continues for three years or more, DOR has the authority to discontinue a county's CAFFA grant funding.

We would like to acknowledge the Assessor's Office for increasing compliance with the Coefficient of Dispersion (COD) measurement. The 2006 ratio study identified 31 study areas that were out of COD compliance. Currently, only one area is out of compliance and that area is currently being recalculated in order to bring it back into compliance.

The chart below illustrates progress that has been made in this area:



## **Physical Appraisal**

Physical appraisals are conducted to verify accuracy of property inventory. From 1955 to 1996 state law required properties to be reappraised every six years but that requirement was eliminated in 1997.

Overall, the majority of residential properties have been inspected within the last 8 years. In areas that have gone through the recalculation process (described below), the majority of accounts have been inspected within the last 5 to 6 years. In other areas, 9 to 14 years is a more typical timespan.

Physical appraisals typically occur in conjunction with two events:

- **New Construction** – When a new structure(s) is added to the current assessment roll or value is added to an existing property by the completion of construction, remodeling, renovation or some other physical improvement.
- **Inventory Reviews** – Inventory reviews are conducted to support the recalculation process (described below) and to review areas that are of concern (e.g., “hot-spots”).

The Assessor’s Office is considering technology advancements that could impact how physical appraisals are performed. They are considering the following:

- **SurfacePro** – The use of tablets out in the field with the ability to enter property data. This will be implemented during the software rewrite.
- **Pictometry** – The use of aerial photos to identify changes to properties.

## **Recalculation**

Recalculation refers to a hybrid process involving physical reappraisal and the analysis of current sales (See Appendix B for additional information). DOR had recommended use of this method and in 2006 the Assessor’s Office completed its first recalculation/reappraisal since 1995.

To date, four of the seven maintenance areas have been recalculated. Some sections of the remaining three maintenance areas have also been recalculated. Currently, the Office is working on recalculating the City of Rogue River and areas within Southeast Medford, Phoenix, and Talent.

We reviewed the multi-step methodology used to perform the recalculation<sup>11</sup> and found the methodology to be reasonable, though it should be noted that we are not experts in the field of property appraisal.

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<sup>11</sup> We used the last completed recalculation to perform this review, which was Central Point.

During our review of the Central Point recalculation, we did identify areas that the Assessor's Office can improve upon when completing future recalculations. These areas were discussed with Assessment staff and we would like to commend them for working with Internal Audit to develop appropriate controls. The areas discussed with staff are:

- Adding comments to the spreadsheet tool so that the rationale of subjectively applied values are documented. Assessment staff has already completed a thorough review of the spreadsheet, and agreed that if values are subjectively applied the rationale should be documented.
- Maintaining documentation of the *after ratio study*, which is a calculation performed to verify the accuracy of the recalculation process by comparing its results to the ratio study.
- Implementing a process to verify the accuracy on manually-entered data. One individual will enter the results of the spreadsheet calculations into the assessment software and another will review that input.

## Chapter 2 – Is the Helion assessment software rewrite going to meet the needs of Jackson County?

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### Assessment Software Rewrite Project

Steps have been taken to ensure that the rewrite project meets the needs of Jackson County, but at this point in the project it is too early to tell if the project will successfully accomplish its goals. We have observed the following:

- Certain best practices were written into the contract between the County and Helion. These practices include:
  - Assembling a Design Team to provide feedback to Helion to help guide the creation of the deliverable list and development process. Jackson County is represented on this design team.
  - Providing a process to promote agreement on the deliverable list by Helion and the Advisory Committee. Polk, Tillamook, Deschutes and Jackson Counties all have one permanent seat on the Advisory Committee. The process establishes that, if agreement cannot be reached, then the deadline can be moved to allow more time or proceed with mediation. However, if the Advisory Committee fails to respond by the agreed upon date then the lack of their response is to be considered acceptance.
  - Allowing all Counties to provide feedback on concerns they may have based on Helion’s demonstration of software capabilities and presentation on their progress with the rewrite. The presentations will be done through-out the development cycle. Helion will provide the Counties a response to their concerns.
  - Establishing a process for making changes to the deliverable list and/or project timelines between the Advisory Committee and Helion.
  - Allowing time after the software version has been provided to the Counties for the Advisory Committee to either accept or reject the completion of the deliverable list. If the Committee rejects the software, the Committee will provide Helion with a rejection notice, including a list of all incomplete deliverable items.
- The tax receipting component of the software is presenting some challenges for the Taxation Department, which also reports that other counties are having similar challenges. For example, the current software does not provide the user with the ability to perform a global search for information. Moreover, regularly used information that had been previously maintained in one central location is now spread among multiple locations. However, the Department feels that Helion is willing to work with them to address

these challenges. It should be noted that Jackson County was not involved in the Helion project at the time the tax receipting component of the software was being developed.

So that these challenges don't occur, or are lessened, as other components are rewritten, the Assessor's Office needs to take full advantage of the best practices written into the contract as discussed above. This will entail making sure that the software capabilities, as presented by Helion, will work with the Office's needs and continuing the communication dialog as discussed within the next section below.

- The County is taking a proactive approach and providing rewrite design ideas to Helion. However, the Assessor's Office doesn't have a central list of all their ideas for the rewrite. We recommend the Office maintain a complete tracking list of rewrite ideas submitted to Helion to help coordinate discussions during the design meetings and to ensure ideas are not forgotten.
- The Assessor's Office is satisfied with the design prospects for the property appraisal rewrite but they have not yet reached the point in the process where they can test whether it is meeting expectations regarding functionality. The testing is schedule to occur between August 2015 and June 2016. At present, Helion is in the 2<sup>nd</sup> year of an approximately 5-year rewrite project.

### **Assessment Software Projects Specifically for Jackson County**

In addition to the rewrite, Jackson County has a contract with Helion to allow for the customization of software to fit the needs specific to the County. Some controls have been implemented to ensure that the work is performed in accordance with the County's needs and within budget. These controls include assigning one employee to be the primary contact with Helion. The Operations Manager also maintains an open line of communication with Helion. Additionally, all key County departments (Assessor's Office, Taxation, and Information Technology) are involved in the monthly meetings with Helion. These controls help enhance communication. However, a few changes to the contract could further help the County's control over project funds.

We identified one area where language should be inserted into the fiscal year 2015-16 contract to minimize the risk that services paid for are not rendered. The current arrangement is that a set number of hours are purchased annually and monthly payments equal to 1/12 of the agreed upon amount are made. However, if the hours aren't used the contract does not address what is to occur.

While the Assessor's Office reports that it is working with Helion to ensure that unused hours are moved to the next year, the mechanism for doing so is not

specified in the contract. The need for a formal agreement is demonstrated by current conditions. Per the fiscal year 2013-14 contract, the Office purchased 434 hours at a total cost of \$45,526 and paid Helion 1/12 of the agreed-upon amount monthly. At the end of the year, \$11,723 worth of hours had not been used and they rolled forward into fiscal year 2014-15. An additional 250 hours valued at \$27,529 are being purchased in fiscal year 2014-15 and will likely roll forward to fiscal year 2015-16.

Currently, the hours are being used to complete two main projects. In January 2014 the Office proposed to use the hours on the personal property project and in August 2014 for the commercial cost approach project. It was agreed to move forward with the projects in October 2014 after Helion provided a quote on how many hours were needed for the projects. As of current, both projects are works-in-progress and still need to be completed.

We recommend that the fiscal year 2015-16 contract specifies that the hours paid for but not yet used will roll forward to 2015-16. We also recommend that if the 2015-16 contract include an agreement to purchase additional hours, the purchase should be established as a not-to-exceed number of hours to be paid for when used.

## Chapter 3 – Has employee satisfaction improved since 2006?

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Yes, a survey of the Assessor's Office (conducted as part of this audit) showed improvement in employee satisfaction as compared to the survey completed for the 2006 internal audit of the Office. Overall, 81% of the respondents feel positive about the department and consider it a good place to work. The remaining four individuals were neutral. Comparatively, in 2006 76% of the respondents felt positive about the department and considered it a good place to work. Out of the remaining individuals, 5 were neutral and 3 disagreed. However, as we discuss the results of the other survey questions below, the answers in 2006 regarding specific aspects of the work environment were less positive than the current employee satisfaction levels.

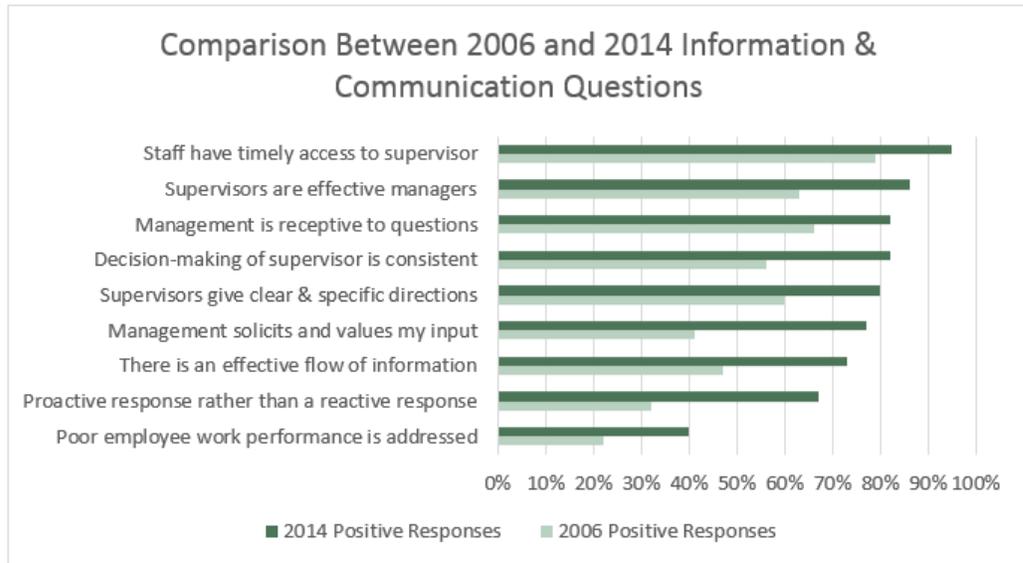
Twenty-two of the 26 (85%) employees responded to the 27-question anonymous survey. Results indicated the following:

- **Efficiency** – 21 of the 22 (95%) employees consider the department to be efficient. The 22<sup>nd</sup> observed that the department is working towards efficiency but that technological advances don't always improve ease or speed. However, 20 responded that electronic information and technology has helped them to perform their jobs more efficiently. In 2006, 28% of employees considered the department to be efficient.
- **Staffing Levels** – 57% of the employees believe the department is adequately staffed. In 2006, only 29% of employees had stated that staffing levels were sufficient. Also, in 2014 there were comments acknowledging that the department was working towards filling vacant positions.
- **Teamwork** – High levels of teamwork were reported at both the department and work unit levels. 95% believe that overall there is good teamwork in the department and 91% believe there is good teamwork among the members of his or her work unit. Similarly, 91% responded that their supervisor encourages teamwork. In 2006, 55% felt that there was good teamwork in the department, 76% felt there was good teamwork among the work units, and 84% felt management encouraged teamwork.
- **Information and Communication** – Overall, employees responded more positively regarding communication and information sharing between staff and management, or supervisor, in 2014 than in the 2006 survey. Below is a chart comparing the responses from 2014 to responses received in 2006<sup>12</sup>. Additionally, in 2014 the employees who did not respond positively were

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<sup>12</sup> The "Don't Know/Not Applicable" responses were not used in calculating the percentages, as such the percentages represented in the table for 2006 might not agree with the 2006 audit report.

more likely to have a neutral opinion than a negative opinion as compared to 2006. For example, in 2006 the question regarding timely access to supervisor had 12% respond negatively and 9% were neutral, but in 2014 0% responded negatively and 5% were neutral.



- Policies and Procedures** – 82% of staff feel that there are clear, written, up-to-date directives in place to assist in the performance of his or her job responsibilities. 68% feel that the directives are consistently followed in day-to-day operations. And, 45% feel that these directives do not change so frequently that it is difficult to keep up with the changes, with many providing comments that expressed an understanding of the need for new directives based on changes to Oregon law, county policy, etc. In 2006, 25% of staff felt that clear, written, up-to-date directives were in place, 27% felt that the directives were consistently followed, and 19% felt that the directives do not change so frequently that it is difficult to keep up with the changes.
- Training** – 82% of staff feel that they receive sufficient training to accomplish their job responsibilities. While specifically to the ORCATS software, 64% feel that they receive adequate training on the software. In 2006, 53% of staff felt that they received adequate training, and specifically to ORCATS only 28% felt they received adequate training on the software.

## Chapter 4 – Other Relevant Information Identified During the Audit for Consideration

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### **Business Personal Property Audit Program**

Per Oregon law, county assessors are responsible for assuring all property, including business personal property, is being assessed and appraised in a uniform manner. Business personal property consists of machinery, equipment, furniture, and other personal property used by a business.

Taxpayer's are required to "self-report" their business personal property listing to the county assessor. Upon receiving self-reported property listings, the assessor should then determine whether it is complete and accurate, and then the assessor must determine a defensible value for the personal property. The assessor is faced with the additional challenge of identifying businesses that fail to self-report. DOR uses the term "discovery" when referring to the process of identifying businesses that fail to self-report.

The Department of Revenue (DOR) provides guidance to help counties develop a sound personal property program to be compliant with the requirement that they uniformly assess all property. However, DOR does not dictate how the program should be implemented. Nevertheless, DOR does note that the following should be considered:

- When implementing personal property discovery beyond "self-reporting," such as staff site-visits to business areas of the county, the assessor needs to assess county funding, cooperation of the taxpayer, and available resources.
- When implementing a review of personal property listings provided by taxpayers, the assessor needs to develop a plan on how to accomplish the goal of ensuring that the listings are complete and accurate. While establishing a plan the assessor should establish how many staff are needed and the funds required.

The Assessor's Office is currently trying to determine the best way to approach a business personal property audit program. This includes trying different methods as suggested by DOR. After trying these different methods, analysis will be needed to determine how to balance the requirements with the law and the availability of County resources. Therefore, the Assessor needs to approach this like a scientific experiment by gathering data regarding costs involved and unreported property identified for each of the different methods that can be used. Then determine which of these methods is the most cost effective.

For example, currently staff have physically gone into areas of the County and identified non-reporting businesses. Another method is using business directories or similar sources to identify non-reporting businesses. The results from each method should then be compared to determine the most cost effective approach and to ensure compliance with the law.

### **Permit Information**

Another current initiative involves transferring responsibility from the Information Technology Department to the Assessor's Office for ensuring that building permit data submitted electronically by certain cities and Jackson County Development Services is compatible with the assessment software in order to be uploaded. This data is used to identify properties that have undertaken improvements which may increase property value. Once the initiative is fully implemented, the process should be studied to determine if there are opportunities to make the process more efficient. For example, not all permits require the property to be selected for physical inspection by an appraiser, but currently the process is to manually review the uploaded property information to determine if the property should be flagged for inspection. As an alternative, the Assessor's Office could discuss with Helion if the manual review process could be automated, such as having a mechanism where the assessment software could flag the properties needing a physical inspection. We do realize that this example could require up-front costs for Helion's time and the Assessor's Office staff time; however, the up-front costs should be compared with the potential cost savings through the elimination of the manual review.

## Management's Response

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**JACKSON COUNTY**  
*Oregon*

### Assessor's Office

Joshua Gibson  
*Assessor*

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April 13, 2015

Eric Spivak, County Auditor  
10 S. Oakdale Avenue, Room 306  
Medford OR 97501

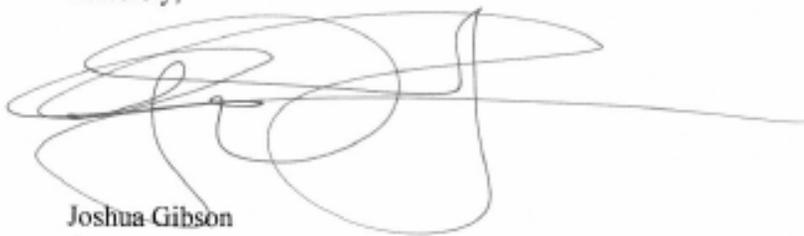
RE: Audit Response

Dear Eric,

This letter is to inform you that after my review of the "Assessor's Office" audit report, I am in agreement with the findings made by the Jackson County auditors. The findings listed have been reviewed and we have begun the process of implementing the recommendations in the Assessor's Office. The Assessor's Office will continue to monitor the progress of these implementations on a regular basis.

I do want to express my gratitude to Nicole Rollins for her diligent work to understand the complex nature of the duties this office must perform.

Sincerely,



Joshua Gibson  
Assessor

# APPENDIX A – Jackson County Maintenance Area Map



## APPENDIX B – Recalculation

Recalculation is a hybrid of physical reappraisal and the analysis of current sales. The assessment software has property characteristics that are tabled, such as landscape and home qualities. This tabled information should not be static. For example, the cost to add utilities and water to vacant land changes over time. The property's value is made up of all these characteristics, it is not just one value that the appraiser arbitrarily applies to the property. Below is a simplified example<sup>13</sup> of the difference between the ratio study and recalculation methods, assuming no changes to the property. No matter the differences, both methods are important and serve different purposes.

### Example

**Description of Property** – The house is one story, has 2,698 square feet of living space, and has a finished attached garage which adds an additional 725 square feet. The house has 3 bedrooms, 2 ½ bathrooms and 2 fireplaces. The house sits on .20 of an acre. The quality<sup>14</sup> of the house is rated at a 5. The landscaping is considered above average with a well-designed layout of plants and use of lawn, there is use of stone work and has an automated irrigation system.

#### Ratio Study

Summary Property Components (Not all shown & components were simplified)	2013 RMV	Ratio Study Results*	2014 RMV
Land	\$165,000	106%	\$174,900
House	\$275,000	106%	\$291,500
<b>Total</b>	<b>\$440,000</b>		<b>\$466,400</b>

*\*The ratio study showed that properties that have sold in this area have sold for 6% more than the real market value of the prior year.*

#### Recalculation

Detail Property Components (Not all shown & components were simplified)	2013 Tabled Values	2014 Tabled Values	Change
Land (Base)	\$150,000	\$155,900	\$5,900
Landscape Quality 4	\$15,000	\$19,000	\$4,000
House Quality 5 (Base)	\$200,000	\$213,500	\$13,500
House - Additional Factors	\$75,000	\$78,000	\$3,000
<b>Total</b>	<b>\$440,000</b>	<b>\$466,400</b>	<b>\$26,400</b>

<sup>13</sup> It is not intended to factually represent tabled information, an actual piece of property or the full process of an appraisal.

<sup>14</sup> Quality determination takes into consideration items such as foundation, exterior style/construction, and interior style/construction.

As depicted on the previous page, the ratio study trends the property value while under the recalculation the underlying information that is stored in the tables is changed. Therefore, when new properties are added to the roll the real market value is being determine using up-to-date information that is stored in the tables.

The recalculation process entails the following steps:

- Compile a list of properties that have sold in the area that are being recalculated.
- Physically inspect sold properties to confirm or correct the property records.
- Analyze sold property records to determine value tables and factors for the following items:
  - Market Changes (Time) – Determining if sales should be adjusted to reflect the change in the market over time.
  - Land – Determining the value for vacant lots.
  - On-site development – Determining the cost, value added, for items like sewer, water and utilities.
  - Other Improvements – Determining what the market’s perception is of the value added by other improvements (e.g., rental suite) to the property.
  - Replacement Cost and Local Cost Modifier – The Department of Revenue (DOR) publishes a residential cost factor book. The Cost Factor Book provides the value for homes at different qualities. However, this Cost Factor Book is used statewide, therefore the value needs to be adjusted for the specific area being reviewed (LCM).
  - Depreciation – Determining the difference between the value of the property (the replacement cost adjusted for the Local Cost Modifier) and its present value.
- Update the tables in the assessment software with the information obtained above.
- Perform a ratio study with the new real market values. The result should be a ratio of 100%, meaning that properties are valued at 100% of real market value and no adjustment is needed. If the ratio is not 100%, then additional review is needed to ensure accuracy of the recalculation process.