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## AGENDA COVER MEMO

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To: Board of County Commissioners

From: Jim Gangle, Director of Assessment and Taxation

Date: March 16, 2005

Re: **Presentation of Report/Discussion of Department of Revenue Assessment & Taxation Functions Analysis Report and Recommendations**

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**I. PROPOSED MOTION:**

None. Discussion item only.

**II. ISSUE:**

Discuss the findings and recommendations of the Department of Revenue's analysis of the Assessment & Taxation function in Lane County. Discuss the response to the findings and recommendations prepared by the Lane County Assessor.

**III. DISCUSSION:**

**A. BACKGROUND:**

The Oregon Department of Revenue performed an in depth analysis of the A&T functions in the fall of 2004 and evaluated whether the county's staffing and level of service are in compliance with state statutes and DOR standards.

The Department of Revenue issued their report in January 2005. The report was submitted to the county's Finance and Audit Committee for discussion on February 15, 2005. The Assessor also presented his response to the report for the committee's review. After discussion, the committee voted 3-0 to forward the report to the full Board for consideration.

Karen Gregory and Jim Buchholz of the Department of Revenue will present their findings and recommendations to the Board of Commissioners on March 16, 2005.

**IV. IMPLEMENTATION/FOLLOW UP:**

The Board can decide to forward the reports to the Budget Committee for further consideration and implementation of the proposed recommendations.

**IV. ATTACHMENTS:**

Department of Revenue Assessment & Taxation Functions Analysis Report

Assessor's Response to DOR Report

# **Lane County**

## **Assessment & Taxation**

### **Functions Analysis Report**

**Produced by Oregon Department of Revenue**

**Property Tax Division**

**January 2005**



## **Executive Summary**

During the spring of 2004, Lane County submitted a County Assessment Function Funding Assistance (CAFFA) grant application to the Department of Revenue under ORS 294.175 regarding the delivery of mandated assessment and taxation (A&T) services. The Department of Revenue initially denied the estimated \$1.6 million grant. The department then conditionally accepted an amended grant application from the county, subject to the understanding that the department and the county would develop a plan to bring the county's A&T program back into compliance. Part of this plan included a department evaluation of the county's A&T functions, conducted in the fall of 2004. This report contains the major findings of that review and outlines the corrective actions necessary to bring the county into compliance with the applicable statutes.

The objective of the department's analysis was to determine the expenditures necessary to achieve statutory compliance. The evaluated functions included assessment administration, property valuation, Board of Property Tax Appeals, tax collection and distribution, cartography, and A&T data processing. The evaluation focused on compliance with legal requirements, current resource use, and identification of potential improvements in program efficiency and effectiveness.

The department assigned a team of over a dozen analysts and appraisers to evaluate Lane County's assessment and taxation programs. The team spent over 1,500 hours on the project during a six-week period. The evaluation included both on-site and field-review components. Additionally, the team compared eight counties—Benton, Clackamas, Deschutes, Douglas, Jackson, Linn, Marion, and Washington—to Lane County to establish a "typical" level of activity and an acceptable level of performance.

The department found that Lane County was generally in compliance, with one notable exception: the county has failed to maintain current and accurate property descriptions and ownership records as described by ORS 308.210 for the purpose of carrying out the requirements of ORS 306.120 (equalization) and ORS 308.232 (real market valuation standard). This deficiency can be attributed to the untimely processing of real property divisions, consolidations, and tax code area changes. This processing backlog is unique to Lane County in terms of magnitude and duration. The department estimates that this backlog results in annual local government tax revenue losses of \$4.2 million to the county's taxing districts, of which \$340,000 represents the county's portion. This program result does not achieve the "adequacy" standard under ORS 294.175(4).

### **General Requirement**

The county must add resources to substantially reduce the backlog in processing property divisions, such as mergers, segregations, partitions, subdivisions, and tax code area changes.

### **Specific Corrective Actions**

- Add 2.5 full-time equivalent staff (FTE) to substantially reduce the backlog related to the cartography function.
- Add 2.0 appraisal FTE during FY 2005-06 and 2.0 appraisal FTE during FY 2006-07 to support the valuation function.

The Department of Revenue is willing to provide enhanced support to the county's cartography and valuation programs.

### **Anticipated Outcomes**

The county will eliminate the backlog of property divisions and collect the estimated \$4.2 million in taxes contained in the backlog. This will bring the county into compliance with minimum statutory requirements.

## Introduction

Lane County's ability to fund services has been strained the past several budget cycles. As a result, county support for the delivery of assessment and taxation (A&T) services has decreased. During the spring of 2004, the county submitted a County Assessment Function Funding Assistance (CAFFA) grant application for A&T funding provided under ORS 294.175 *et seq.* Lane County's share of the CAFFA funding was estimated at \$1.6 million. The application included budgeted resources that would not allow for compliance with state law regarding the delivery of mandated A&T services. As a result, the Department of Revenue notified the county governing body that the grant application would not be approved as submitted.

The department then conditionally accepted an amended grant application because the county restored a portion of the A&T budget. The acceptance also was subject to the understanding that the department and the county would develop a plan to bring the county's A&T program into full compliance. As part of that plan, the department evaluated various county A&T functions during the fall of 2004. This report contains the major findings of that review. It also outlines the corrective actions needed to bring the county into compliance with ORS 308.232 and 308.234, ORS Chapter 309, and other laws requiring countywide and statewide equality and uniformity in the property taxation system.

The department sincerely appreciates the county's full cooperation and assistance during the recent review process.

## Authority and Objective

The Department of Revenue has statutory authority to review the county's grant application under ORS 294.175(3). As part of this responsibility, the department is charged with evaluating whether each county's planned expenditures for A&T functions are adequate to achieve compliance with ORS 308.232 and 308.234, ORS Chapter 309, and other laws. If the department determines that a county's planned expenditures are not adequate to achieve compliance with these statutes, the department is required to deny certification of the estimate of expenditures for grant purposes.

Other statutes, including ORS 306.115, 306.120, and 308.335, grant the department authority to establish and enforce standards for county A&T programs.

The objective of this results-based evaluation of Lane County's mandated A&T functions was to determine the expenditures necessary to achieve statutory compliance. The evaluated functions included:

- Assessment administration,
- Property valuation,
- Board of Property Tax Appeals,
- Tax collection and distribution,
- Cartography, and
- A&T data processing.

The evaluation focused on compliance with legal requirements, current resource use, and identification of potential improvements in program efficiency and effectiveness.

## Scope of Analysis

The department assigned a team of over a dozen analysts and appraisers to the task of evaluating Lane County assessment and taxation programs during a six-week period. The evaluation included both county on-site and field-review components. The department staff made every effort to minimize

the impact of its evaluation on the county's daily work activity. Correspondingly, the county staff made every effort to openly educate the department team on county program operations.

The department selected eight counties—Benton, Clackamas, Deschutes, Douglas, Jackson, Linn, Marion, and Washington—as a basis for comparison with Lane County. Selection was based on a variety of characteristics, including proximity to Lane County, complexity, size, number of accounts, and type of computer system. Comparison was for the purpose of establishing a “typical” level of activity and an acceptable level of performance based on data submitted by all counties on the CAFFA grant applications.

The department also used its study of minimum staffing guidelines. This study was developed in cooperation with Oregon's 36 county assessors to determine typical staffing levels by function. The staffing study model takes several variables into consideration, including the number and type of accounts, to establish minimum staffing levels within each function for each of the counties.

The following report contains summaries of the department's findings and the corrective actions necessary to bring Lane County's A&T programs into statutory compliance.

## Findings by Function

### ***Function: Tax Collection/Distribution***

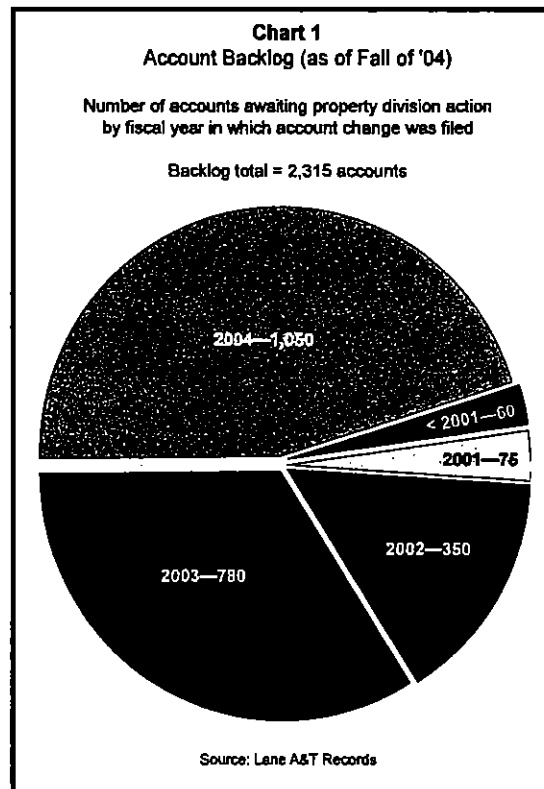
In general, the function of collecting and distributing property taxes in Lane County is performed efficiently and accurately. The one notable exception to this is in regard to keeping an accurate record of owners and tax lots as required by ORS 308.210.

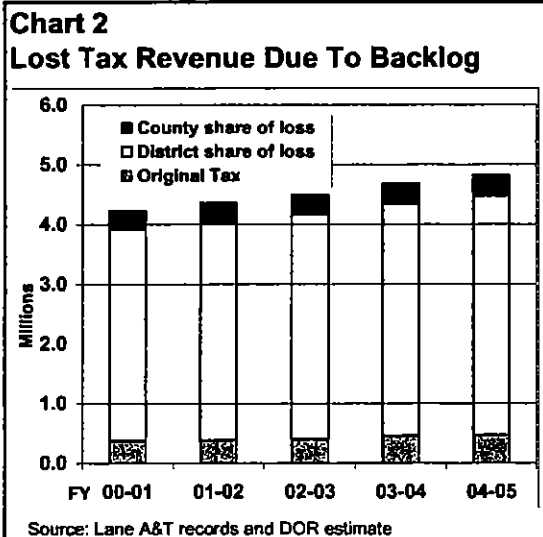
The accuracy of the tax account records is deficient due to the large backlog of accounts awaiting completion of a variety of labor-intensive processes. These processes include dividing, adjusting, or merging tax lot parcels to reflect activities related to taxing district changes, lot line changes, and property development. Our findings of fall of 2004 showed that 2,315 accounts awaited action by clerks, cartography staff, and appraisal staff, dating back to fiscal year 2000 and earlier.

The backlog affects nearly every aspect of the tax collection and distribution function. The negative consequences include:

- The inability to collect taxes from owners of newly divided or improved property on which assessment is delayed.
- Loss of tax revenue due to incorrect tax rates or property values.
- Multiple or duplicate payments.
- Higher rates of appeal.

The backlog produces extra workload at almost every point in the tax assessment, collection, and distribution processes.





The most important consequence of the backlog is that taxes cannot be assessed or collected on the new accounts that result from segregation or subdivision until the change has been identified, mapped, appraised, and documented. The Lane County Assessor reports that parent accounts processed in fiscal year 2003-04 had an original taxable value of about \$23 million. When the changes to these accounts were finally processed, the value had grown to over \$292 million. In terms of taxes, this value change produced over \$4.2 million dollars of additional public revenue for the 2004-05 tax year. A similar amount of increased tax revenue could have been collected in the 2003-04 tax year if the county had provided the resources to work the revisions in a timely manner. Statutes will not now allow recovery of those back taxes because they do not qualify for collection as a clerical error or as omitted property.

Assuming the accounts that are in the backlog produce the same percentage gain in taxes, an estimated additional \$4.2 million in annual tax revenue remains uncollected. The county's share of this tax loss is calculated at \$342,300 for the 2003-04 tax year alone. The remaining approximately \$3.8 million is lost to all of the other taxing districts in Lane County, including cities and schools.

A closely related problem is out-of-date tax code area boundaries. This problem compounds the property division backlog issues, adding another layer of mistakes that must be corrected. Not only must tax be prorated, but some levies are improperly extended, creating inequity among taxpayers receiving the same government services.

### **Function: Cartography**

The county's cartography function has several positive aspects. Workstations are ergonomically designed. The staff benefits from up-to-date computers and state-of-the-art mapping software. Procedures are very well documented, which provides benefits for both training and ease of reference.

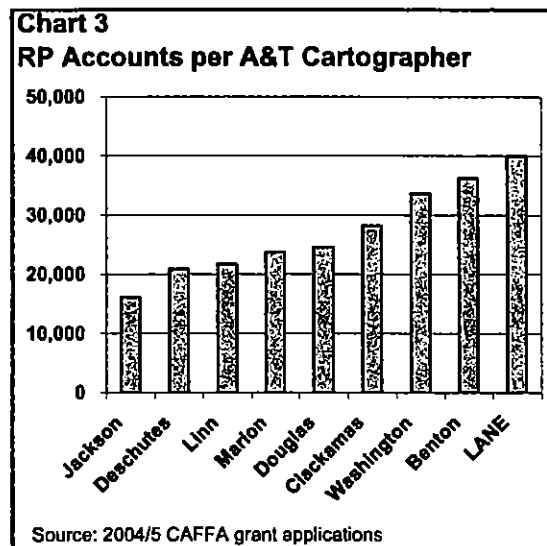
Unfortunately, cartographic operations are also seriously hampered by the backlog of property divisions and consolidations involving multiple transactions and the resulting slow turnaround time on tax-lot and boundary-map changes. This situation results in unnecessary prorating of assessments, delays in processing deed changes, and results in lost tax revenue.

Mapping of tax-code or annexation changes and property divisions and consolidations is about four years behind. Failure to accomplish this work in a timely manner results in incorrect local taxing district levies and property tax rates. This property divisions and tax code area backlog places Lane County in noncompliance with ORS 308.210. It is a compliance issue that does not exist in any other Oregon county in such severity or duration.

The department also discovered a few processes that warrant further examination. Cartography staff, for example, are digitizing land class maps and placing "centroids" (informational reference points) on their CAD (Computer-Aided Design) maps. Both activities are a great underutilization of the cartographers' skills and take time from the main task of updating the cadastral maps and records.

Further, there is no peer-review, quality-control process in the county's cadastral mapping section. When a cartographer completes a map update, the revised map is given directly to a clerk, who processes the change through the A&T records and valuation process. The clerk is the first to review the cartographer's mapping changes and is the one who discovers common work-in-progress mapping errors.

An analysis of Lane County's cartographic staffing level indicates that the county is understaffed relative to the number of real property accounts in the county. This lack of staffing has undoubtedly contributed to the growing backlog of property divisions and consolidations. To properly address the problem, the county will need to add cartographic resources to shrink the considerable backlog and to stay current with new property divisions and consolidations.



### **Function: Valuation**

The valuation staff demonstrates a high level of professionalism. Staffing is inadequate, however, due to the sheer magnitude of the ongoing workload and the backlog of unprocessed property divisions.

#### **Residential Property**

Lane County implemented a new computer-assisted appraisal program, ProVal, in 1999. However, only 17,000 residential accounts have been appraised using the new program. Data-entry errors, which occurred during the software conversion in 1999, cannot be corrected until properties are actually visited. There are 90,000 accounts with potential errors yet to be reappraised in the ProVal system. In some cases, appraisers left or retired before their appraisals were entered into the system.

In addition, there is a two- to three-year backlog of approximately 2,500 accounts requiring appraisal valuation. In some cases, new improvements have been appraised before the new tax lot has been appropriately identified and mapped, resulting in an inaccurate property record and likely an incorrect real market value (RMV).

Lane County has no active reappraisal effort because of staffing limitations. However, to partially compensate for this limitation, the county has devised alternative computer-assisted mass-valuation methods using the existing property inventory data and the ratio-analysis program. This workaround has enabled the county to produce real market values to date that, in aggregate, fall within an acceptable range of error. The computer-assisted method, however, cannot entirely replace the need for physical reappraisal. Physical inspection of the property is needed to detect any value adjustments due to changes made to the property that may not be reflected in the existing property inventory data relied upon in the computer-assisted method. The county needs to establish a reappraisal program within the next two years to address the inevitable problems that will arise due to the lack of reliable property information.

A cursory review of a sampling of neighborhoods revealed that some of the anticipated problems due to inadequate staffing are already beginning to appear. For example, the department has discovered multiple examples in which similar houses in the same neighborhood have the same overall value according to county appraisal data, but one of the two houses has been remodeled and should be

appraised at a higher value than the other. Most properties have not been physically inspected or observed since 1991–1996.

The department also discovered examples in which land values for new parcels were significantly different from neighboring existing parcels. Many current RMV conclusions for land and site development are extremely low because they are based on studies done 14 years ago. Additionally, the department identified cases in which remodels and renovations were not recorded as exception value, resulting in a direct loss of tax dollars.

### **Ratio Study**

In Lane County, ratio study reporting issues are a continuing concern. The published reporting is too voluminous and detailed (over 10,000 pages), and clouds rather than clarifies the county's appraisal performance. The county is unable to modify the ProVal reporting format and has been reluctant to establish some other workaround. The county is receptive to reviewing existing market areas for analytical and reporting purposes. However, current staffing limitations hinder an effective response to these concerns. The department is willing to assist the county with preparation of its ratio study report.

### **Farm, Forest, Timber, and Exempt Property**

The county administers the farm, forest, timber, and exempt property programs efficiently but at a minimal level. The county's Ascend software appears generally adequate for the exempt property program functions, and the users observed are proficient in using it. The procedures and processes reviewed meet typical statutory requirements. Similar to the basic appraisal dilemma, however, is that these programs lack adequate resources for an appropriate level of compliance work. The backlog in processing property division may also be impacting the accuracy of the county's records on specially assessed and exempt properties. For some exemptions, a change in ownership could lead to disqualification of the property from an exemption. For both special assessments and exemptions, lack of available resource to review the current use of the properties makes it more likely properties are improperly granted special assessment or exemption.

### **Personal Property**

The county has very efficient processes in place for administering the personal property tax program, both manually and electronically. However, the staff relies almost exclusively on information voluntarily reported by the taxpayer. A quick survey of communities outside the Eugene-Springfield area by the Department of Revenue produced a list of 1,500 businesses. This information was compared to the county's records; 897 of those businesses could not be found on the county tax roll. Some of these businesses do not exceed the \$13,000 personal property value threshold for owing tax or could be reporting under a different name. However, a significant non-filer issue likely exists in the county that cannot be addressed with current staffing levels.

### **County Property Account Comparison by FTE**

A comparable county workload analysis reveals that Lane does not compare well with other counties of similar population and number of accounts (Marion, Washington, and Clackamas). Lane County appraisal staff is responsible for maintaining a high number of property accounts compared to the other counties. The comparison is more striking when considering Lane County does not reappraise and recalculates only a small number of accounts.

The staffing guideline comparison indicates that the valuation function in Lane County is significantly understaffed. It is important to note that the staffing guidelines are intended to identify the approximate staffing level necessary to achieve adequacy. Many reasons may exist as to why a county could require more or less FTE than the "norm" to achieve adequacy. Lane County's geographic and demographic characteristics make it one of the most diverse counties in the state, and this certainly argues

for a higher rather than lower level on the staffing spectrum. The addition of four FTE would place Lane at a level comparable to Clackamas County, the county with the next highest ratio of real property accounts to appraisers among the eight counties used for comparison.

### **Function: Board of Property Tax Appeals**

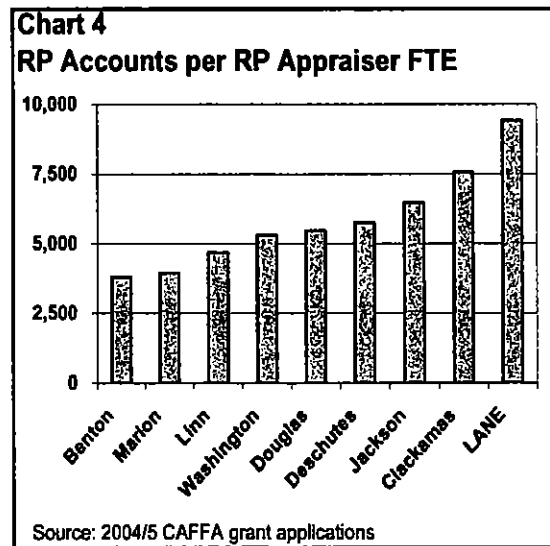
The county has greatly improved its presence at the board. The Assessor's representatives effectively support this function.

### **Function: Data Processing (Information Services)**

The staff in the data processing function work to prioritize and accomplish information service tasks in an efficient and effective manner. The knowledge level, physical assets, and staffing level are deemed adequate and typical.

### **Function: Assessment Administration**

A good working relationship exists between the county's A&T department management team and its employees. They work together closely to evaluate and accomplish required A&T functions in the most efficient way possible given available resources. The knowledge level and supporting resources are deemed adequate and typical.



## **Corrective Actions and Implementation Plan**

**General Requirement:** *The county must add resources to substantially reduce the backlog in processing property divisions, such as mergers, segregations, partitions, subdivisions, and tax code area changes.*

### **Implementation Plan (2005-06)**

#### **1) Add 2.5 FTE to support the cartography function.**

- As soon as possible, the county must add 1.5 cartographer FTE and 1.0 clerical support FTE to substantially reduce the backlog related to the Cartography function.
- The additional FTE must be provided with adequate workstations and all of the other necessary tools and resources to do their jobs.
  - We recommend contracting certain mapping work to students, interns, or others. This would free up existing cartography resource to spend more time on the mapping backlog and would be in addition to the 2.5 FTE.
  - The Department of Revenue will agree to make available the equivalent of between 0.5-1.0 FTE for one year on a 50:50 cost-share basis. This would include both training and work-process improvement components. This option could be used to offset up to 0.5 of the additional 2.5 FTE.

#### **2) Add 2.0 appraiser FTE to support the valuation function.**

- This is required to process just the increased workload resulting from the cartography function's increased production.

- The hiring of the two appraisal FTE may be phased-in, with one being hired in approximately July 2005, and the other in approximately February 2006. This is intended to align with the increased workflow originating from the cartography function.
  - The additional FTE must be provided with adequate workstations and all of the other necessary tools and resources to do their jobs.
- 3) The Department of Revenue will provide enhanced support to the county's valuation program.
- Department field staff will assist the county with its sales ratio review study, identifying efficiencies in reporting processes and procedures.
  - Department field staff will assist the county with its development of a countywide recalculation program.
  - Department field staff will assist the county with its development of a communications site database.
  - Department field staff will train and assist the county to improve the personal property inventory record and voluntary filing compliance.

#### **Anticipated Outcomes**

- 1) The county will achieve substantial reduction in the account processing backlog and will progress toward achieving compliance with minimum statutory requirements.
- 2) The county will collect a portion of the estimated additional \$4.2 million in annual taxes contained in the backlog.
- 3) The additional resources will stop the recurring loss of non-recoverable tax dollars.
- 4) The additional resources will result in greater equity and uniformity, both within and between property classes, with associated public perception benefits.

#### **Implementation Plan (2006-07 and beyond):**

- 1) The department will evaluate the progress made by the county through implementation of the 2005-06 requirements. The county must have significantly reduced the backlog in processing property divisions over the prior tax year in order to avoid additional required FTE.
- 2) The county will establish a plan to institute an active reappraisal program. This will include the addition of 2.0 FTE to support the valuation function, beyond the 2.0 FTE added in 2005-06. The additional FTE must be provided with adequate workstations and all of the other necessary tools and resources to do their jobs.
- 3) The department will continue to provide enhanced field office support across a variety of programs and functions.

#### **Anticipated Outcomes**

- 1) The county will eliminate the backlog in processing property divisions that existed at the beginning of the 2005-06 year. Ultimately, the county will establish a standard for working property divisions that will ensure that all name changes, mapping changes, and valuation changes for recordings through June 30th of any given year will be complete by the turn of the roll for the subsequent tax year.
- 2) The county will achieve compliance with minimum statutory requirements.
- 3) The county will collect the remaining balance of the estimated \$4.2 million in annual taxes contained within the backlog.
- 4) The additional resources will stop the recurring loss of non-recoverable tax dollars.
- 5) The additional resources will result in greater equity and uniformity, both within and between property classes, with associated public perception benefits.

**LANE COUNTY ASSESSMENT & TAXATION**

**RESPONSE TO  
OREGON DEPARTMENT OF REVENUE  
ASSESSMENT & TAXATION  
FUNCTIONS ANALYSIS REPORT  
January 2005**

## General Comments

Before I discuss the events leading up to this report and my responses to the specific Department Of Revenue (DOR) findings, I want to recognize and commend all of the A&T employees throughout the department who were instrumental in working with the DOR field auditors. The employees cooperated fully, answered all questions, and provided full access to all aspects of our operations. The DOR field auditors were very impressed by our employees and complimented the staff on their outstanding work ethic, concern for the needs of the taxpayers, the high quality of their work product, and their ability to handle a higher volume of work per employee than any of the other comparable counties. I wholeheartedly agree with their observations.

Additionally I would like to thank the DOR audit team for their thoughtful analysis and willingness to partner with the county in a meaningful way to assist in resolving the issues they have identified for corrective action.

The following is a high level response to the DOR's recommendations. If the Board has questions regarding the finer details of the DOR's analysis, I would be happy to answer those. Additionally, if the Board is interested in a tour of the department's operations to experience first hand any of the findings in the DOR analysis, I would be happy to escort you.

## Background

The Oregon Department of Revenue has supervisory authority over county assessor functions to ensure that the property tax system is operating adequately and fairly across the state. To assist in this goal, the state reimburses counties for a large percentage of their assessment and taxation expenditures, subject to annual approval of the county's staffing plan and budget. This is commonly referred to as the "A&T Grant" or the "CAFFA Grant" that is submitted to the DOR by May 1 of each year. Upon DOR review and approval, the county receives reimbursement for approximately 20%-30% of the budgeted expenditures. Lane County treats this reimbursement as a discretionary general fund revenue source and it is used to keep the general fund in balance. The reimbursement is not recorded as revenue in the Assessment & Taxation (A&T) budget.

As part of the grant submission, the Board of Commissioners is required to certify to the DOR the amount of expenditure appropriation and staffing that will be budgeted for the assessment and taxation functions for the following fiscal year. If the DOR determines that the staffing plan and budget submitted by the county does not provide adequate resources to keep the local property tax system in compliance with constitutional and statutory requirements, then the county will not receive the reimbursement. In the worst case scenario, the DOR will step in and provide the county assessor functions and bill those costs back to the county.

A history of A&T funding and state reimbursements is listed below, beginning with the year before the implementation of Ballot Measures 47/50 in 1997. In 1997-98, the department took a significant budget reduction in response to those tax limitation measures. The appraisal program was reduced primarily in response to the creation of a new maximum assessed value limitation created by Measure 50 and the expectation that Real Market Value was no longer important. The increases in the A&T budget over time are primarily due to rising employee benefit and county overhead costs, but staff levels have never fully recovered.

	FY96-97	FY97-98	FY98-99	FY99-00	FY00-01	FY01-02	FY02-03	FY03-04
A&T Expense	4,694,791	3,773,526	3,978,981	4,213,102	4,311,811	4,451,524	4,558,525	4,658,092
DOR reimbursement*	958,798	834,750	1,002,909	1,202,104	1,773,115	1,266,166	1,717,864	1,788,183
% reimbursed	20.42%	22.12%	25.21%	28.53%	41.12%	28.44%	37.68%	38.39%

\*reimbursement includes a small portion for support of Board of Property Tax Appeals and Tax Foreclosed Properties.

During the development of the FY04-05 budget in the spring of 2004, the Board of Commissioners requested that all general fund departments submit a budget with an across the board reduction of 9% in order to balance the general fund and provide for a second year of stability in FY05-06. In order to meet that budget target, A&T was required to reduce expenditures by \$452,000 and 3.0 FTE. The DOR reviewed and denied the county's grant application that was submitted with these reductions.

The Board Chair, County Administrator, and the Assessor met with the Department of Revenue in May 2004 to discuss options that would bring the budget and staffing plan back to a level that would receive approval from the DOR in the short term. Based on their response, the Lane County Budget Committee ultimately revised the A&T budget by restoring the 3.0 FTE and \$180,000 of expense authority which was deemed the bare minimum necessary to meet DOR approval in the short term. As a result, the county qualified for an estimated \$1,700,000 in state reimbursement.

As part of the long term strategy to receive DOR approval for the FY05-06 grant, the county agreed to have the DOR do an in depth analysis of A&T staffing and work procedures to determine the corrective actions necessary to bring the county assessor functions into compliance with statutory and constitutional mandates. In the fall of 2004, the DOR conducted a six week field review of the department's operations and compared the findings to eight comparable counties. In January 2005, the DOR issued its report with specific findings of non-compliance with ORS 308.210 and recommendations for corrective action to bring Lane County back into statutory compliance.

## Findings & Staff Responses

The DOR identified two specific corrective Actions:

- Add staff to substantially reduce the backlog related to the cartographic function (property divisions).
- Add staff to support the valuation function.

DOR Summary Requirement:

*The county must add resources to substantially reduce the backlog in processing property divisions, such as mergers, partitions, subdivisions, and tax code area changes.*

The overarching compliance problem identified by the DOR is the delay in processing time of taxpayer initiated real property changes (property divisions, consolidations, partition plats, subdivisions, etc) as well as tax code area changes. This is commonly referred to as “the backlog”. The wait time to have a property division completed is currently 18 months to three years or more. Mapping of annexations and tax code area changes are delayed up to four years.

*Department response:*

Agree with findings and recommendations. The impact of the “backlog” has a ripple effect throughout the local property tax system. Property owners are frustrated that the county cannot take care of their business in a timely manner. Tax districts are not receiving the full amount of tax revenue they are due.

The concept of eliminating the backlog has been around for many years. A&T has brought the issue to the attention of the budget committee several years in a row and has requested staffing assistance without success. High profile needs of public safety departments in recent years have received budgetary priority. In the interim, the department has gone to great lengths to prioritize workload, streamline business processes, and use our resources as efficiently as possible. At this time we can turnaround one year's worth of property divisions in a year, but have been unable to make a dent in the overall size of the backlog. We are currently trying to keep the backlog from growing any larger or stretching out any longer.

We prioritize the actions in the backlog for the most efficient work flow. We look at where there is capacity in the other areas involved with the actions and work to fill any available time. For example, when our farm/forest clerk and appraiser have capacity to handle more divisions on farm/forest land, we work those in until they reach capacity (at least for a while). We then shift focus to another area. There are usually several areas or types of divisions being worked on at the same time. As a result of this prioritization, some divisions, such as those involved in subdivisions, are completed the same year they are submitted. Others may wait several years to be processed.

The DOR outlined a series of negative consequences that have arisen due to the backlog of accounts awaiting property division action. The most serious of which is the inability to collect the correct amount of tax revenue at the time it should be due. The department cannot go back and collect those "lost" taxes after the property division is completed. This should be of utmost concern to all tax districts, including Lane County, that we are able to process the property division in a timely manner.

On the other side of the coin, is the inconvenience to the taxpayer. The impact to the taxpayer can be a frustrating chain of events that does not reflect well on the county. The "old" property owner continues to be liable for the taxes and continues to receive the tax statement. The burden is put on them to collect the tax from the new owner. Two current real-life examples of what taxpayers are experiencing are attached to this response for your information.

#### What is the financial benefit of eliminating the "backlog"?

The DOR identified on page 5 of their report that there are 2,315 *tax accounts* waiting for action. It is important to clarify this statistic. There are 2,315 *tax lots* that are waiting for action. The distinction here is that one old tax lot can be divided into many, many new tax lots and each new tax lot will have a new taxable value. The sum value of the new tax lots will exceed the original value of the old tax lot. So while a few thousand tax lots waiting in the backlog for processing sounds small, there is a huge tax revenue potential waiting to be realized when those tax lots are divided into many more thousands of tax lots. The DOR has estimated that the current value of the 2,315 tax lots is \$23 million. Once they are divided, they have the potential taxable value of \$292 million. The value of the new tax lots waiting to emerge from the backlog is estimated at over \$250 million. That equates to approximately \$4.2 million in tax revenue, of which Lane County would receive over \$300,000 per year plus growth.

#### Implementation Plan and Financial Impact Analysis

We propose the addition of the positions recommended by the DOR over the next two fiscal years. With the addition of these positions, and the cartographic assistance from the state, we believe we can eliminate the backlog of tax lots awaiting changes within a three year period and then be able to prevent another backlog from creeping back into existence.

Attachment 1 of this report details the estimated revenues and costs of the implementation plan. The proposed outcome of the plan is to eliminate the backlog within three years by eliminating 20% in year one and 40% each in years two and three. The county will realize the full amount of the tax revenue from the backlog in the fourth year because the tax collection cycle is based on a calendar year, not a fiscal year.

For example, in FY05-06 all property divisions completed between July 1, 2005 and June 30, 2006 will be billed on the October 2006 tax statement and collected between

November 15, 2006 and May 15, 2007. Therefore the revenue associated with the work completed in FY05-06 is not realized until the FY06-07 fiscal year and so on.

*The county will establish a plan to institute an active reappraisal program.*

The DOR outlined several problems with the appraisal program in Lane County. Data problems from the 1999 computer system conversion limit the ability of the county to recalculate values. Location of improvements on the correct account is hindered by the backlog in divisions. Problems in a DOR neighborhood sampling showed increased value from remodels or decreased value from neglect and deterioration were not captured. Land values for new parcels were significantly different from neighboring existing parcels. The published ratio report is voluminous and too detailed. The county does not inspect and disqualify property from special assessment programs. Personal property taxation relies exclusively on voluntary compliance.

*Department response:*

Agree with findings and recommendations.

The creation of local option levies by the Oregon Legislature and their passage by cities and school districts, the shift of urban renewal compression collected under education levies to local government compression, the desire to create new taxing authority by the creation of new districts, and more properties being assessed at Real Market Value under Measure 50, has recreated the importance of having accurate Real Market Value.

This is not reappraisal in the classic door-to-door sense without regard to the actual necessity, but is better characterized as characteristic clean-up and neighborhood alignment. Each year a dozen or so appraisal market neighborhoods have slipped over the edge of compliance with DOR standards and require work to correct the inaccuracies. Each year we slip further over the edge as the data becomes older.

The changes occurring in the City of Creswell illustrate this problem. Creswell was last appraised as part of the regular reappraisal program fifteen years ago in 1990. Homes were primarily older with lower quality construction. There was one market analysis neighborhood. Today, vacant farmland has been developed into several residential neighborhoods with a full range of construction quality occurring. While we have been able to inspect and add the new construction of these homes as it occurs, we have not been able to correctly align neighborhoods to keep up with the changes.

Other examples include beachfront development on the coast, infill within the City of Eugene particularly along Coburg Road, manufactured structures assigned into neighborhoods, and new development in the City of Veneta.

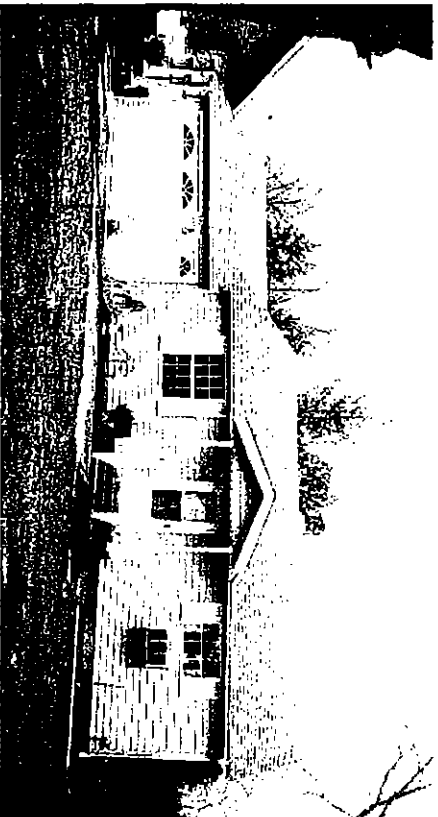
This year there are seventeen neighborhoods identified by the DOR which need review. Current staffing will allow us to look only at the worst five of these. A summary is attached.

### Outcomes

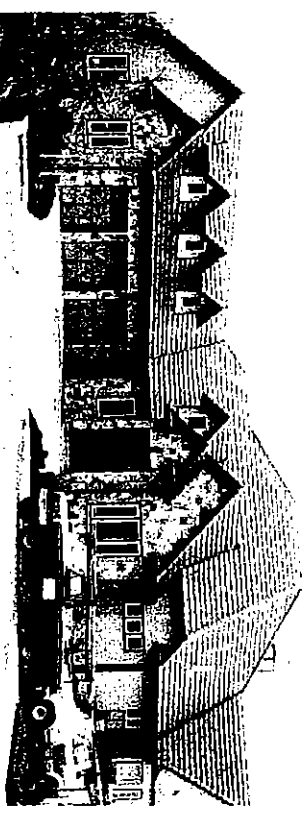
The implementation of the Department of Revenue's corrective action plan will result in several outcomes.

1. Assists the county in meeting its strategic objective of stabilizing and enhancing revenue to the general fund by increasing the amount of property tax revenue collected.
2. Brings the county into compliance with state statutes which qualifies the county to receive approximately \$1.8 million in general fund revenue annually in addition to the property tax revenue collected above.
3. Improves customer service to taxpayers and increases tax revenue to the tax districts in the county, which improves the county's reputation.
4. Creates a collaborative, partnership oriented relationship between the state and the county.
5. At the end of the implementation plan, ensures that all property ownership changes, mapping changes, and valuation changes for deeds recorded through June 30<sup>th</sup> of any given year will be completed and accurately reflected on the tax statement sent to the property owner the subsequent tax year.
6. Real Market Value will be established and maintained with greater accuracy creating greater equity and uniformity. Compression under Measure 5 will be more accurately calculated.

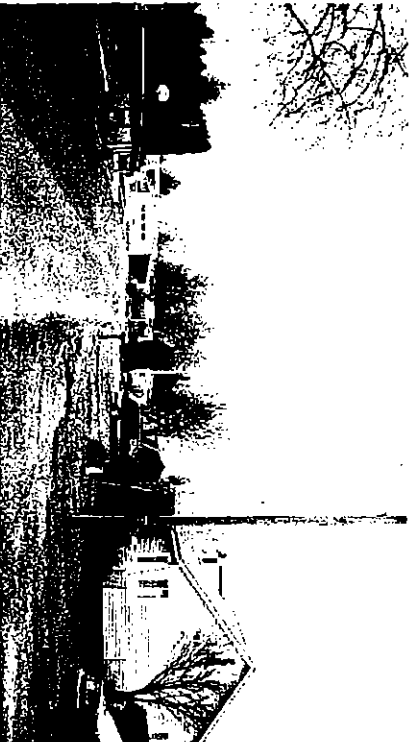
# Changes in City of Creswell Neighborhoods 1990 to 2005



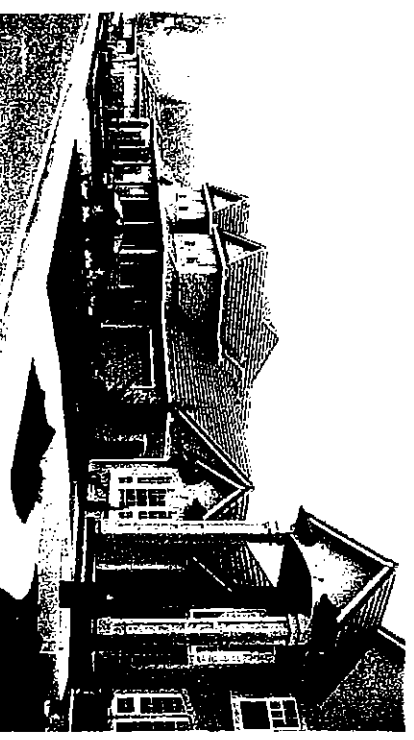
Class 3 Home, build in the 1950's



Class 7 Home, built now



Class "D" Neighborhood



Class "B" Neighborhood

## Neighborhood realignment project "HOT SPOTS"

	Neighborhood Description	Improved Property			Vacant Property			Notes	Bottom Line
		DOR Standard	Recalculation	Ratio Study	DOR Standard	Recalculation	Ratio Study		
8 9	50663 North Cottage Grove Rural	20	16.20 R	15.6 T	20	N/A	N/A	This neighborhood land is out of compliance the past 2 years. Improvements are OK	need to review for 2005
10	50540 Cottage Grove "D" Older sections of Cottage Grove, Non- Homogeneous	15	17.5 R	18.6 R	20	15.3	8.9	This neighborhood is out of compliance the past 2 years	need to review for 2005
14	60140 Coburg "D" Older sections of Coburg	15	14.3 R	17.9 T	20	N/A	N/A	This neighborhood IMPS are out of compliance for 2 years	physical review and alignment for 2005
15	60640 Mapleton "D" Include Mapleton urban areas.	15	23.8 R	26.7 T	20	N/A	N/A	This neighborhood LAND/IMPS are out of compliance for 2 years	Review 2005?
16	60664 Mapleton Rural	20	30.7 R	23.90 T	20	45.2	62	This neighborhood LAND/IMPS are out of compliance for 2 years	Review 2005?

# Lane County Assessment & Taxation Response to DOR Functions & Analysis Report

## Implementation Plan Financial Impact Analysis

FY05-06 Phase 1		FY06-07 Phase 2		FY 07-08 Phase 3		FY 08-09 Phase 4	
Begin backlog elimination		20% Backlog Revenue Collected		60% Backlog Revenue Collected		100% Backlog Revenue Collected	
	Cost		Cost		Cost		Cost
1.0 FTE Cartographer	\$71,445			Assume no additional positions required		Assume no additional positions required and backlog is eliminated	
0.5 FTE DOR Cartographer (\$60/hr)	\$57,600						
1.0 FTE Sr. Office Assistant	\$66,705						
2.0 FTE Property Appraisers	\$155,178	2.0 FTE Property Appraisers	\$129,634				
M&S, Overhead, Equipment	\$74,435	M&S, Overhead, Equipment	\$52,986				
Total County Additional Contribution	\$425,363	Total County Additional Contribution	\$182,620	Total County Additional Contribution	\$0	Total County Additional Contribution	\$0
0.5 FTE DOR Cartographer (\$60/hr)	\$57,600						
DOR Technical Assistance (\$80/hr)		DOR Technical Assistance (\$80/hr)		DOR Technical Assistance (\$80/hr)			
Sales Ratio Review Study 40hrs	\$3,200	Projects to be determined 200hrs	\$16,000	Projects to be determined 200hrs	\$16,000		
Countywide Value Recalculation 80hrs	\$6,400						
Communications Site Database 80hrs	\$6,400						
Personal Property 40hrs	\$3,200						
Total DOR Contribution	\$76,800	Total DOR Contribution	\$16,000	Total DOR Contribution	\$16,000	Total DOR Contribution	\$0
Total Implementation Plan Cost	\$502,163	Total Implementation Plan Cost	\$198,620	Total Implementation Plan Cost	\$16,000	Total Implementation Plan Cost	\$0
Revenue sources		Revenue sources		Revenue sources		Revenue sources	
CAFFA Grant reimbursement @ 30%	\$127,609	CAFFA Grant reimbursement @ 30%	\$54,786	CAFFA Grant reimbursement @ 30%	\$0	CAFFA Grant reimbursement @ 30%	\$0
Increased Property Tax Revenue	\$0	Increased Property Tax Revenue	\$70,040	Increased Property Tax Revenue	\$210,120	Increased Property Tax Revenue	\$354,402
Net Cost/(Revenue) to County	\$287,754	Net Cost/(Revenue) to County	\$57,784	Net Cost/(Revenue) to County	(\$210,120)	Net Cost/(Revenue) to County	(\$354,402)

I:\Managers\BUDGET\2005-06\DOR Review - 2004\Implementation Plan Financial Analysis.xls\Sheet1

## **SPICKARD Anette B**

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**From:** GODWIN Angela M  
**Sent:** Wednesday, February 09, 2005 9:43 AM  
**To:** SPICKARD Anette B; GANGLE Jim  
**Cc:** URBATZKA Danni; TAYLOR Cinda  
**Subject:** RE: Problems caused by seg/merge backlog

Okay, so you wanted some examples of the frustrations and problems caused by the backlog. I assume there is a general awareness of the amount of revenue lost due to our backlog.

1. Account 0994465 Map 19-04-05-00-00801. There are 5 tax lots being generated out of this. Prorations were sent. 3 of the people paid. The other remaining 2 have mortgage companies that pay their taxes, so they did not forward the prorations to the mortgage companies. The mortgage companies did not pay because they did not have a tax lot or an account number in the buyer's name to pay. The proration was generated by request from the original owner.

There are 3 new houses ( the 1<sup>st</sup> from 2002) the other 2 from 2003, and a 4<sup>th</sup> in the works, but the permit not issued yet. The existing sdc is on the parent account. There is also forest deferral on the parent. I had done a homesite declass, but it was sent to the owner of record. They met with Dave & I (this took about an hour) explaining that this declass was not theirs and should have been for one of the other owners. I have decided that until the division can be worked, I will hold off on doing the 3 homesite declasses. The original owner of the parent taxlot is in the process of trying to get one of the mortgage companies to pay so the division can be worked.

The amount of time between Tod, I and Dave is probably 2-3 days total.

2. Original Owner "A" and New Owner "W" Account 1054988 Map 19-01-02-00-03100  
2002 Lot line Adj. Taxes paid at the time it was done. It actually is a seg, creating one new tax lot. Proration was done. Owner "A" disagreed said it was appealed and his portion of value lowered. Reworked the proration. In the meantime, Owner "A" paid the original proration. Did not pay the adjusted. New Owner "W" refused saying it was incorrect due to the appeal. I had requested values for the 2004 proration from appraisal due to this difficult situation and used the values given to me. New Owner "W" appealed the 2004 value also. I am waiting for the results of the appeal before redoing the proration and will request the division of valuation from appraisal. HE APPEALS EVERY YEAR! Therefore, if we cannot move the taxes, I have no idea how long this will remain in the backlog due to taxes owing.

The prorations that were done also create a problem when one person pays and the other does not. In this scenario, I actually cannot determine who owes what of the portion that is still owing. Originally there was a portion of the 2003 taxes owing that were Owner "A"'s responsibility. New Owner "W" had paid the first proration for 2004 and it was posted Oct 27, 2004 and therefore the 2003 year was paid first, although they didn't owe it. When Owner "A"'s payment came through and posted Nov 24, 2004, it should have have been the 2003 portion and part of 2004.

This lot line has taken probably at LEAST 40 hours of work time between me, Rita, Sue and Steve. And, it is still ongoing. If the taxes could be moved it may help, but I am not sure if it could apply to this scenario.

Hope this helps. If you need more, I certainly can go there, but this gives you an idea of the magnitude of time and problems.