

ANALYSIS OF RESIDENTIAL AND COMMERCIAL PROPERTY
APPRAISALS IN ORLEANS PARISH FOR TAX YEAR 2020

ORLEANS PARISH ASSESSOR



PERFORMANCE AUDIT SERVICES
ISSUED MARCH 27, 2020

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF PERFORMANCE AUDIT SERVICES
KAREN LEBLANC, CIA, CGAP, MSW

FOR QUESTIONS RELATED TO THIS PERFORMANCE AUDIT, CONTACT
GINA V. BROWN, PERFORMANCE AUDIT MANAGER, OR
EDWARD P. SEYLER, ECONOMIST, AT 225-339-3800.

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and online at www.lla.la.gov.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Eight copies of this public document were produced at an approximate cost of \$8.00. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at www.lla.la.gov. When contacting the office, you may refer to Agency ID No. 9726 or Report ID No. 40190022 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 27, 2020

The Honorable Patrick Page Cortez,
President of the Senate
The Honorable Clay Schexnayder,
Speaker of the House of Representatives

Dear Senator Cortez and Representative Schexnayder:

This report provides the results of our audit of the Orleans Parish Assessor's Office. The purpose of this audit was to analyze residential and commercial property appraisals in Orleans Parish for tax year 2020 to determine why not all properties were reappraised, why property values increased significantly, and whether the Assessor's office engaged in sales chasing.

Overall, we found the Assessor's office needs to strengthen its processes to ensure all properties are appraised every four years as required by state law, to increase the accuracy of appraisals, and to avoid relying on an individual property's most recent sales price in determining its assessed value.

Officials with the Assessor's office told us they did not reappraise 17.9 percent of the parish's residential and commercial properties for tax year 2020 because, in their opinion, reappraising 25 percent of properties each year during the four-year cycle complied with the constitutional requirement to reappraise properties once every four years. They further stated they decided not to reappraise certain areas because they were not comfortable with the accuracy of their new mass appraisal model, which undervalued small houses and overvalued large houses in these neighborhoods. Specifically, the Assessor's office did not reappraise 27,201 (17.9 percent) of the 152,254 residential and commercial properties that should have been reappraised in tax year 2020, and 7,076 (26.0 percent) of the 27,201 had not been reappraised in more than four years. In addition, 57,594 (37.8 percent) properties had land-only reappraisals, in which the land was reappraised, but the building was not, which may indicate that the Orleans Assessor did not satisfy the requirements of Louisiana Administrative Code that all properties be reappraised in tax year 2020.

Residential property values increased for tax year 2020 because this was a reappraisal year during which assessors are required by state law to revalue properties to account for changes in real estate prices over the previous four years. In Orleans Parish, residential property real estate prices rose 22.3 percent, which caused appraised values to increase sharply. Properties that were fully reappraised in tax year 2020 were not overvalued, on average. However, because the Assessor's office did not reappraise all residential properties, the properties that were not

The Honorable Patrick Page Cortez,
President of the Senate
The Honorable Clay Schexnayder,
Speaker of the House of Representatives
March 27, 2020
Page 2

reappraised did not see an increase in their appraised values. As a result, the properties that were not reappraised may have been undervalued from 14.6 percent to 18.3 percent, and the owners of these properties may have paid less than their fair share of taxes. In addition, changes the Assessor's office made to its appraisal system for tax year 2020 to increase land and building rates and to account for the condition of each property may have also contributed to the increases in appraised values.

We also found the Assessor's office's appraisals for tax year 2020 did not meet international appraisal guidelines for variability for each individual residential property, which affects the accuracy of appraisals. This means some property owners may have paid more than their fair share, while others may have paid less. For example, if two houses were both worth \$200,000, but were appraised at \$150,000 and \$250,000, respectively, then the overall appraisal level or average appraisal amount would be accurate, but there would be high variability between the properties.

In addition, the Assessor's office may have undervalued vacant land, which could mean the owners of properties with structures (i.e., non-vacant land) paid disproportionately more in taxes than the owners of vacant land. For tax years 2016 through 2020, vacant land in Orleans Parish was appraised at approximately 37.6 percent of its fair market value, based on sales ratios for these parcels, indicating that vacant land may have been undervalued by 62.4 percent.

We found as well that the Assessor's office engaged in "sales chasing," which means it appraised recently sold individual residential and commercial properties based on their sales price. Such a practice is a violation of Louisiana Tax Commission rules and best practices. We estimated that sold properties were assessed 14.9 percent higher than unsold properties because of this practice. Using sales chasing resulted in a \$385.8 million increase in property value in Orleans Parish and may have contributed to a lack of uniformity in property appraisals.

The report contains our findings, conclusions, and recommendations. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of the Orleans Parish Assessor's Office and the Louisiana Tax Commission for their assistance during this audit.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Analysis of Residential and Commercial Property Appraisals Tax Year 2020 Orleans Parish Assessor

March 2020

Audit Control # 40190022

Introduction

We conducted this audit in response to a legislative request that asked us to analyze residential and commercial property appraisals in Orleans Parish for tax year 2020 to determine why not all properties were reappraised, why property values increased significantly, and whether the Orleans Parish Assessor (Orleans Assessor) engaged in “sales chasing.”¹ The total assessed value of residential properties in Orleans Parish increased by 11.5%, from \$2.7 billion in tax year 2019 to \$3.0 billion in tax year 2020, compared to an average of 4.6% the previous four tax years. In addition, 27,201 (17.9%) of the 152,254 non-exempt² residential and commercial properties in Orleans Parish were not reappraised during calendar year 2019 for tax year 2020.³ Exhibit 1 shows the percent change of the assessed values in Orleans Parish from tax years 2016 through 2020.

For Tax Year 2020, the Orleans Assessor’s office assessed 151,021 residential and commercial properties for \$2.98 billion, which resulted in \$641.7 million paid in taxes.

Louisiana Constitution Article 7, Section 18 requires each parish assessor to determine the fair market value of all property subject to taxation within the respective parish at least every four years. State law (R.S. 47:2321) defines fair market value as the property price that would be agreed upon between a willing and informed buyer and a willing and informed seller under usual and ordinary circumstances.

To meet its statutory obligation, the Orleans Assessor utilizes a mass appraisal system for appraising and maintaining property data and values. A mass appraisal system values groups of properties as of a given date

Exhibit 1 Orleans Parish Assessed Values Residential and Commercial				
Tax Year	Residential		Commercial	
	Assessed Value	Percent Change	Assessed Value	Percent Change
2016	\$2,414,187,320	7.8%	\$961,813,190	1.3%
2017	\$2,531,091,790	4.8%	\$950,654,600	-1.2%
2018	\$2,626,486,200	3.8%	\$965,906,710	1.6%
2019	\$2,676,734,660	1.9%	\$971,084,500	0.5%
2020	\$2,984,911,580	11.5%	\$1,203,021,900	23.9%

Source: Prepared by legislative auditor’s staff using data obtained from the Orleans Parish Assessor.

¹ LAC 61:V:213(D) defines sales chasing as “the procedure by which an individual property assessment is based upon the price the property sold for” and describes this practice as “expressly prohibited.”

² Exempt properties include government owned, ITEP, non-profit, residential tax abatement, industrial development boards

³ Orleans Parish differs from the rest of the state in that they collect their property taxes a year in advance. Thus, the tax rolls for tax year 2020 in Orleans Parish were released July 15, 2019.

using standardized procedures, common data, and statistical testing. Until tax year 2020, it was the Orleans Assessor's goal to appraise 25% of properties each year to meet the constitutional requirement that every property has be re-appraised every four years. For tax year 2020, Louisiana Tax Commission (LTC) regulations state that assessors reappraise *all* real property as of January 1, 2019.⁴ The objective of this audit was:

To analyze residential and commercial property appraisals in Orleans Parish for tax year 2020 to determine why not all properties were reappraised, why property values increased significantly, and whether the Orleans Assessor engaged in “sales chasing.”

Our results are discussed in detail throughout the remainder of the report. Appendix A contains Orleans Assessor's response to this report, and Appendix B contains our scope and methodology.

⁴ LAC 61:V:213(C).

Objective: To analyze residential and commercial property appraisals in Orleans Parish for tax year 2020 to determine why not all properties were reappraised, why property values increased significantly, and whether the Orleans Assessor engaged in “sales chasing.”

Overall, we found that the Orleans Assessor needs to strengthen its appraisal processes to ensure all properties are appraised every four years as required by state law, to increase the accuracy of property appraisals, and to avoid relying on an individual property’s most recent sales price in determining its assessed value. Specifically, we found the following:

- **According to Orleans Assessor officials, they did not reappraise 17.9% of residential and commercial properties for tax year 2020 because, in their opinion, reappraising 25% of properties each year during a four-year cycle, as opposed to appraising all properties in the first year, complied with the constitutional requirement of reappraising properties once every four years. Orleans Assessor officials further stated that they decided not to reappraise certain areas because they were not comfortable with the accuracy of values produced by their new mass appraisal model, which was undervaluing small houses and overvaluing large houses in certain neighborhoods.** Specifically, we found that the Orleans Assessor did not reappraise 27,201 (17.9%) of the 152,254 residential and commercial properties that should have been reappraised in tax year 2020 in accordance with state regulations, and 7,076 (26.0%) of the 27,201 had not been reappraised in more than four years, as required by the Louisiana Constitution. In addition, 57,594 (37.8%) had land-only reappraisals, in which the land was reappraised, but the building was not, which may indicate that the Orleans Assessor did not satisfy the requirements of LAC 61:V:303(D) that *all* properties be reappraised in tax year 2020.
- **Orleans Parish residential property values increased for tax year 2020 because this was a reappraisal year, during which assessors are required by state law to revalue properties to account for changes in real estate prices over the past four years. Specifically, appraised values increased sharply in tax year 2020 because Orleans Parish residential property real estate prices increased by 22.3% over the past four years.** Properties that were reappraised in tax year 2020 were not overvalued, on average. However, because the Orleans Assessor did not reappraise all residential properties for tax year 2020, the properties that were not reappraised did not receive an increase in their appraised values. As a result, the properties that were not reappraised may have been undervalued by 14.6% to 18.3%, and the owners of these properties may have paid less than their fair share of taxes. In addition, changes the Orleans Assessor made to its appraisal system for tax year 2020 to increase land and building rates and account for the condition of each property may have also contributed to increases in appraised values.

- **The Orleans Assessor’s appraisals for tax year 2020 did not meet international appraisal guidelines for variability for each individual residential property, which affects the accuracy of appraisals. As a result, some property owners may have paid more than their fair share, while others may have paid less.** For example, if two houses are both worth \$200,000 but are appraised at \$150,000 and \$250,000, respectively, the overall appraisal level or average appraisal amount is accurate, but there is high variability among the properties.
- **The Orleans Assessor may be undervaluing vacant land. As a result, owners of properties with structures (i.e., non-vacant land) may pay disproportionately more in taxes than vacant land owners.** According to LTC officials, the assessor should value vacant land by looking at the sale of other vacant land with similar characteristics. From tax years 2016 through 2020, vacant land was appraised at approximately 37.6% of its fair market value, based on sales ratios for vacant land parcels, indicating that vacant land may have been undervalued by 62.4%. As a result, owners of properties with structures (i.e., have a building on their land) pay disproportionately more in taxes than vacant land owners. The Orleans Assessor should work with LTC to determine the most accurate methodology for appraising vacant land.
- **The Orleans Assessor engaged in “sales-chasing,” which means that it appraised individual residential and commercial properties that recently sold based on their sales price, which violates LTC rules and international best practices.** We estimated that sold properties were assessed 14.9% higher than unsold properties as a result of this practice. Using sales chasing resulted in an increase in property value by \$385.8 million and may have contributed to a lack of uniformity in property appraisals in Orleans Parish.

Our findings and our recommendations to assist the Orleans Assessor to strengthen its appraisal processes are discussed in more detail in the following pages.

According to Orleans Assessor officials, they did not reappraise 17.9% of residential and commercial properties for tax year 2020 because, in their opinion, reappraising 25% of properties each year during a four-year cycle, as opposed to appraising all properties in the first year, complied with the constitutional requirement of reappraising properties once every four years. Orleans Assessor officials further stated that they decided not to reappraise certain areas because they were not comfortable with the accuracy of values produced by their new mass appraisal model, which was undervaluing small houses and overvaluing large houses in certain neighborhoods.

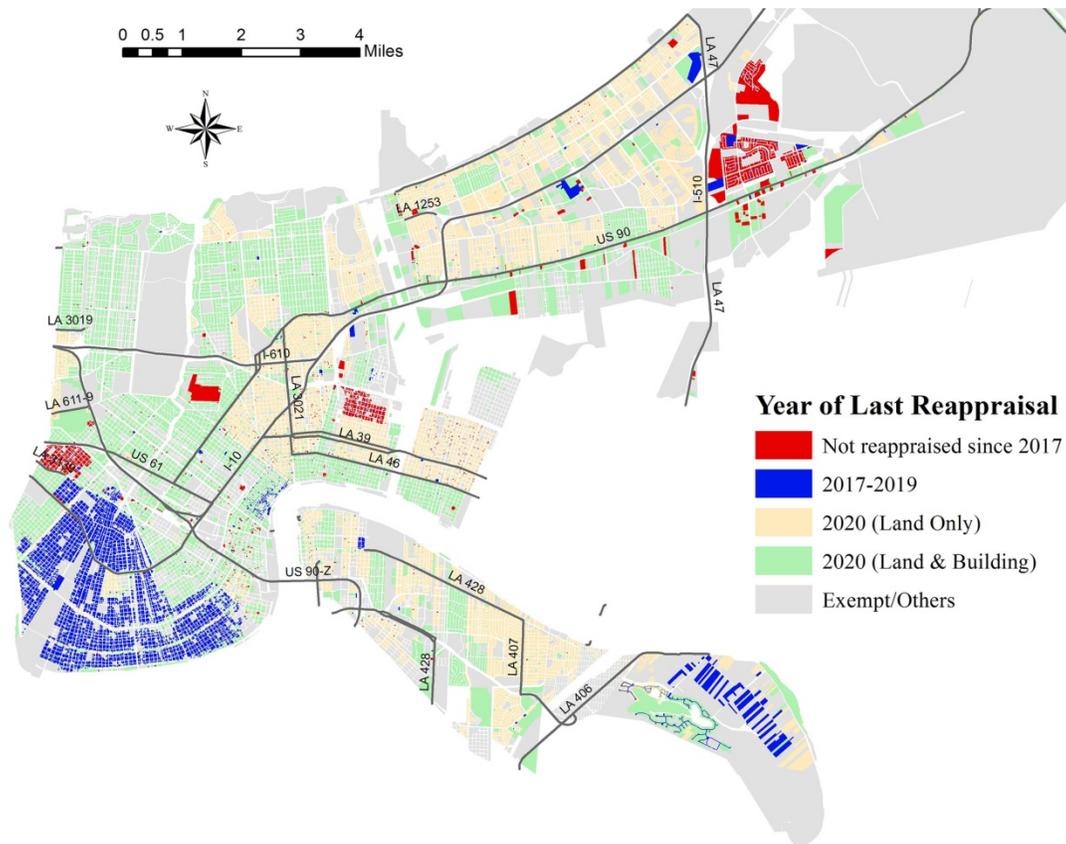
La. Const. Art. VII § 18(F) requires that all property subject to taxation be reappraised and valued at intervals of not more than four years. In addition, Louisiana Administrative Code (LAC) 61:V:303(D) requires all property in all parishes to be reappraised for tax year 2020 based on its value as of January 1, 2019.⁵ However, we found that the Orleans Assessor did not fully reappraise all properties for tax year 2020, as shown in Exhibit 2. We found that neither the land nor the buildings on 27,201 (17.9%) of 152,254 non-exempt residential and commercial properties were reappraised. In addition, 57,594 had land-only reappraisals, in which the land was reappraised but the buildings were not. In total, 84,795 properties, or 55.7% of the properties in the parish, were not fully reappraised, which may indicate that the Orleans Assessor did not satisfy the requirements of LAC 61:V:303(D) that *all* properties be reappraised in tax year 2020.

Exhibit 2 Properties Not Reappraised Commercial and Residential For Tax Year 2020					
Type	Total Number of Properties	Number Neither Land nor Building Reappraised	% Not Reappraised	Number Land-Only Reappraisals	% Land-Only Reappraisals
Residential	143,050	25,987	18.2%	57,573	40.2%
Commercial	9,204	1,214	13.2%	21	0.2%
Total	152,254	27,201	17.9%	57,594	37.8%
*Excludes public service properties, which are appraised by LTC, and exempt properties. Source: Prepared by legislative auditor's staff using information from the Orleans Parish Assessor.					

In addition, 7,076 (26.0%) of these 27,201 had not been reappraised in more than four years, as required by the Louisiana Constitution. Exhibit 3 shows where the properties that were not reappraised are located in Orleans Parish. The red properties have not been reappraised in more than four years.

⁵ Orleans Parish Assessor conducts appraisals during the previous year of the tax year the appraisals will apply to.

Exhibit 3 Map of Properties Not Reappraised in Tax Year 2020



Source: Prepared by legislative auditor's staff using GIS and Orleans Assessor tax roll data.

According to Orleans Assessor officials, they did not reappraise all properties for tax year 2020 because they opined that reappraising 25% of properties each year during a four-year cycle, as opposed to appraising all properties in the first year of the cycle, complied with the constitutional requirement of reappraising properties once every four years. However, according to LTC officials, synchronizing the reappraisal cycle throughout the state was necessary because the inconsistency between the timing of reappraisals of real property between different parishes created a lack of uniformity, which could affect the state's payments to local school districts for K-12 education under the Minimum Foundation Program. Orleans Assessor officials further stated that LTC's new requirement of reappraising all residential and commercial properties in the same year is burdensome and that with more than 150,000 non-exempt residential and commercial properties to reappraise in Orleans Parish, they found it easier to reappraise properties on a rolling four-year cycle than to reappraise all properties in the first year.

In addition, an October 2018 ruling from the 19th Judicial District Court in *Comeaux v. Louisiana Tax Commission* declared that three provisions of the LTC's Rules and Regulations, Sections 121(A), 213(C) and 303(B)(2), were invalid. The Orleans Assessor reasoned that, in light of the district court's *Comeaux* ruling, it only needed to comply with the constitutional

requirement of reappraising all properties once every four years, and that properties that it had revalued between 2017 and 2019 did not need to be included in the 2020 revaluation. However, the district court's ruling in Comeaux does not address Section 303(D) of the LTC's Rules and Regulations, in which the LTC orders that all property to be reappraised for the 2020 tax year in all parishes. Beginning in tax year 2020, all real property is to be valued as of January 1, 2019.

According to Orleans Assessor officials, while they did develop formulas to reappraise all residential and commercial properties in the parish, they decided not to reappraise 93 of the 538 (17.3%) neighborhoods comprising 30,810 residential properties because they were not comfortable with the accuracy of the values produced by their new mass appraisal model for certain neighborhoods. The Orleans Assessor's appraisal model values all residential structures by taking a certain base amount for all houses in the neighborhood, adjusted for condition. An incremental amount per square foot is then added to the base amount. Orleans Assessor officials stated, in anticipation of the tax year 2020 revaluation cycle, they designed the model to account for all neighborhoods, including the properties that they later decided not to reappraise. However, Orleans Assessor officials reviewed the model's output and determined that the valuations were undervaluing small houses and overvaluing large houses. Because of time constraints, the Orleans Assessor decided not to reappraise these houses until tax year 2021.

Of the 27,201 properties that were not reappraised for tax year 2020, 7,076 (26.0%) had not been reappraised in more than four years, as required by the Louisiana Constitution because the Orleans Assessor's mass appraisal system did not reappraise properties with unusual characteristics. Orleans Assessor officials stated that their appraisal system missed these properties because they had unusual characteristics. For example, some properties were residential properties situated in commercial areas, others were commercial properties situated in residential areas, and the remainder were mixed-use commercial and residential properties. Exhibit 4 shows comparisons between properties that are in the same neighborhood and have similar building conditions, land areas, and building areas, but one was reappraised in tax year 2020 and the other in tax year 2016, which does not meet the requirements of La. Const. Art. VII § 18(F). All four properties that were reappraised in tax year 2020 were assessed at higher amounts than the properties that were not reappraised.

Exhibit 4 Property Examples Percent Different in Appraised Value for Residential Properties Not Reappraised in 2020						
Same Neighborhood	Land Square Foot	Building Square Feet	Condition	Year Reappraised	Appraised Amount	Percent Difference
Property A	6,600	2,153	Good	2020	\$118,000	17.5%
Property B	7,700	2,153	Good	2016	\$99,000	
Property A	5,000	2,008	Average	2020	\$140,000	36.4%
Property B	5,400	2,008	Average	2016	\$96,900	
Property A	4,500	2,040	Average	2020	\$134,000	34.1%
Property B	4,488	2,036	Average	2016	\$95,000	
Property A	4,500	2,600	Average	2020	\$300,000	96.5%
Property B	3,600	2,544	Average	2016	\$104,700	
Source: Prepared by legislative auditor's staff using information obtained from Orleans Assessor.						

Recommendation 1: The Orleans Assessor should reappraise all properties in Orleans Parish according to LTC's quadrennial reappraisal rule unless and until the rule is invalidated by legislation or a court ruling that would apply to Orleans Assessor.

Summary of Management's Response: The Orleans Assessor disagrees with this recommendation and stated that reappraising 25% of properties each year within a four-year cycle is well within the constitutional authority granted to the office. The Assessor also stated that there is no constitutional, statutory or jurisprudential authority for the suggestion that all property in a parish must be assessed in a single year. In addition, the Assessor disagrees that land only reappraisals did not satisfy the requirements of state regulations. The Assessor stated that they reviewed those neighborhoods where land rate changes were made and was satisfied that a building value change was not necessary. In addition, there is no constitutional law or state statute that requires both land and building values to be changed to achieve market values. See Appendix A for management's full response.

LLA Additional Comments: Louisiana Administrative Code (LAC) 61:V:303(D) requires all property in all parishes to be reappraised for tax year 2020 based on its value as of January 1, 2019. In addition, our ratio study indicates that the properties that had land-only reappraisals had an appraisal level below the acceptable range of 90% to 110% of fair market value, while properties that were fully reappraised had an appraisal level within this acceptable range, as noted in Exhibit 6 in the next finding. This evidence suggests that reappraising both land and structures on properties was sufficient to account

for growth in real estate prices between 2015 and 2019, while the land-only reappraisals were not sufficient to account for this growth. As a result, this may indicate that the Orleans Assessor did not satisfy the requirements of LAC 61:V:303(D) that all properties be reappraised in tax year 2020.

Recommendation 2: The Orleans Assessor should ensure its mass appraisal system for valuing all properties in the parish is accurate and reliable.

Summary of Management's Response: The Orleans Assessor agrees with this recommendation and stated they will continue to work to ensure that their mass appraisal system is valuing properties accurately and reliably. See Appendix A for management's full response.

Matter for Legislative Consideration: The Legislature may wish to consider clarifying how often assessors can reappraise properties within the quadrennial reappraisal cycle.

Orleans Parish residential property values increased for tax year 2020 because this was a reappraisal year, during which assessors are required by state law to revalue properties to account for changes in real estate prices over the past four years. Specifically, appraised values increased sharply in tax year 2020 because Orleans Parish residential property real estate prices increased by 22.3% over the past four years.

La. Const. Art. VII § 18(A) requires that all property be assessed based on its fair market value and that parish assessors be primarily responsible for determining fair market value for the property in each parish.⁶ LAC 61:V:303 (D) requires that appraisals for tax years 2016 through 2019 be valued as of January 1, 2015, and appraisals for tax years 2020 through 2023 be valued as of January 1, 2019. This means that between tax years 2019 and 2020, the appraised values of properties must increase to account for four years of growth in real estate prices.

Appraised values increased sharply in tax year 2020 because Orleans Parish residential real estate prices increased by 22.3%. However, even though the appraised values of residential properties with structures increased sharply in tax year 2020, this was not enough to account for four years of growth. As a result, properties in Orleans Parish may be undervalued for tax year 2020. The median sales ratio⁷ for tax year 2016 was 86.3%, which is below LTC's acceptable sales ratio range of 90% to 110% and indicates that these properties

⁶ The parish assessor does not determine the fair market value for public service companies.

⁷ A ratio study measures the assessment level, which shows if assessed values are on average equal to fair market values, and assessment uniformity, which is the degree to which different properties are assessed at fair market value.

may have been undervalued for the start of the tax year 2016 appraisal cycle. During tax years 2017 through 2019, the Orleans Assessor raised appraised values enough to close the gap and achieve a sales ratio of 99.9%. As noted in Exhibit 5 below, the valuation date remained the same during these years, so the assessor did not have to keep up with prices as they were increasing each year; the assessor just needed to catch up to what prices were as of January 1, 2015. For tax year 2020, the assessor did not raise appraised values enough to account for the 22.3% growth in real estate prices over the past four years, so the sales ratio fell to 89.8%, which is below LTC's acceptable sales ratio range of 90% to 110% and indicates that property values were too low for tax year 2020. Exhibit 5 shows the valuation dates, growth in real estate prices, and median sales ratios in Orleans Parish for residential properties with structures.

Exhibit 5 Quadrennial Reappraisal Cycle Residential Properties (Land and Structure)			
Tax Year	Valuation Date	Cumulative Growth in Real Estate Prices	Median Indexed* Sales Ratios
2016	January 1, 2015	0.0%	86.3%
2017	January 1, 2015	8.3%	93.1%
2018	January 1, 2015	14.3%	100.4%
2019	January 1, 2015	20.7%	99.9%
2020	January 1, 2019	22.3%	89.8%
*The indexed sales ratio is the appraised value divided by the sales price, indexed to the valuation date shown in the second column. Source: Prepared by legislative auditor's staff using the LAC 61:V:303(D) and data from the Orleans Assessor.			

Because the Orleans Assessor did not fully reappraise all residential properties for tax year 2020, these properties did not receive the same increase as the rest of the properties that the Orleans Assessor did reappraise. As a result, the owners of these properties may have paid less than their fair share of taxes. As noted in the previous finding, 22,792 residential properties with structures were not reappraised in tax year 2020. These properties had a median sales ratio of 81.7%, which is below LTC's acceptable range of 90% to 110%. In addition, the 45,434 residential properties with structures that had land-only reappraisals had a median sales ratio of 85.4%. Exhibit 6 shows the median sales ratios for tax year 2020 for subsets of properties based on whether they were or were not reappraised in tax year 2020.

Exhibit 6	
Median Sales Ratios in Orleans Parish Residential Properties with Structures Tax Year 2020	
Reappraisal Status	Median Indexed* Sales Ratio
Land and building reappraised	93.7%
Partially reappraised (land only)	85.4%
Not reappraised	81.7%
Total	89.8%
<p>*Indexed sales ratios are computed using sales prices that have been adjusted back to the valuation date applicable for each tax year, which was January 1, 2015 for tax years 2016 through 2019, or January 1, 2019 for tax year 2020.</p> <p>Source: Prepared by legislative auditor's staff using data provided by the Orleans Assessor.</p>	

As shown in the exhibit, the 49,852 residential properties with structures that were reappraised had a median sales ratio of 93.7%, which is within LTC's acceptable range. The properties that were not reappraised may have been undervalued by 14.6% to 18.3%, resulting in these property owners not paying their fair share in property taxes. As a result, the overall median sales ratio was below LTC's acceptable range. These results underscore the importance of reappraising all properties during a reappraisal year to ensure that all properties have appraised values that reflect the new valuation date.

Changes the Orleans Assessor made to its appraisal system for tax year 2020 to increase land and building rates and account for the condition of the property may have also attributed to increases in appraised values. The Orleans Assessor raised land rates for tax year 2020 so homes with larger lots saw a greater increase in property value. From tax year 2019 to 2020, the median land rate went from \$3.50 per square foot to \$5.00 per square foot, a 42.9% increase. In addition, beginning in tax year 2020, the same rate applies for large and small lots in the same neighborhood, whereas in tax year 2019 a lower rate was used for larger lots. This caused appraised values for land to increase significantly in tax year 2020, particularly for large land parcels. In addition, tax year 2020 was the first year that the Orleans appraisal system took condition into account when valuing residential buildings.

Recommendation 3: The Orleans Assessor should continue to update its appraisal system to produce appraisal levels in line with the real estate market in Orleans Parish.

Summary of Management's Response: The Orleans Assessor agrees with this recommendation and states they will continue to strive to update their appraisal system to produce appraisal levels in line with the real estate market in Orleans Parish. See Appendix A for management's full response.

The Orleans Assessor’s appraisals for tax year 2020 did not meet international appraisal guidelines for variability for each individual residential property, which affects the accuracy of appraisals. As a result, some property owners may have paid more than their fair share, while others may have paid less.

The Orleans Assessor’s mass appraisal system has a level of variability that exceeds the standards for acceptable general quality established by the International Association of Assessing Officers (IAAO). We calculated the coefficient of dispersion (COD) for sales ratios in Orleans Parish, which is used to measure the level of variability in appraisals.⁸ The higher the COD, the worse the variability in appraisals. A COD of zero indicates perfect accuracy. The IAAO says that a COD ranging from 5 to 15 is acceptable for single-family homes in “older or more heterogeneous areas,” as well as large to mid-sized markets. However, we found that the Orleans Assessor’s residential appraised values have a COD of 20.0, which exceeds the IAAO’s target by 33.3%. This higher variability in appraisals means that, even if residential property owners on average pay the correct amount, the appraisal for each individual property could be too high or too low. Specifically, it means that some property owners pay more than their fair share, while others pay less. Exhibit 7 illustrates this by showing all residential properties that sold in open market transactions in Orleans Parish for \$200,000 during the last four months of calendar year 2019. As shown in Exhibit 7, the Orleans appraised these properties at \$160,300 to \$292,800.

Variability of appraisals is how far away each property’s appraised value is from its true fair market

Exhibit 7 Comparison of Initial Estimated Values, Sales Prices, and Final Appraised Values		
Property	Sales Price in 2019	Orleans Assessor Final Appraised Value in TY 2020
A	\$200,000	\$217,900
B	\$200,000	\$179,500
C	\$200,000	\$165,000
D	\$200,000	\$292,800
E	\$200,000	\$160,300
F	\$200,000	\$250,900
G	\$200,000	\$165,700
H	\$200,000	\$199,200
Source: Prepared by legislative auditor’s staff using data from Orleans Assessor.		

⁸ The IAAO notes two characteristics that can be obtained from a ratio study. One is the overall appraisal level, and the other is the variability of appraisals.

High variability can still reduce the accuracy of appraisals for residential properties, even if appraisals are correct on average. For example, if two houses are both worth \$200,000 but are appraised at \$150,000 and \$250,000, respectively, then the overall appraisal level or average appraisal amount is accurate, but there is high variability among the properties. Exhibit 8 below shows the trend in CODs over time for all residential properties with structures in Orleans Parish. As noted in the exhibit, variability has been decreasing over time, which means that the accuracy of the appraisals has been improving.

Exhibit 8 Accuracy of Appraisals Residential Properties with Structures	
Tax Year	Coefficient of Dispersion
2016	27.6
2017	27.7
2018	25.2
2019	23.3
2020	20.0
Source: Prepared by legislative auditor's staff using data from the Orleans Assessor.	

One factor that increased variability for these properties was that not all properties were reappraised in tax year 2020, as required by LAC 61:V:303(D), as discussed earlier. As noted previously in Exhibit 7, properties that were not reappraised or were only partially reappraised in tax year 2020 had appraisal levels that were lower than the overall appraisal level in the parish. This creates variability in appraised values. Additional CODs for these groups of properties for tax year 2020 are shown in Appendix C.

To improve the accuracy of its appraisals, the Orleans Assessor should consider accounting for additional variables, such as year of construction, as a way of improving its appraisal model. Since tax year 2020, the Orleans Assessor's mass appraisal system currently only accounts for condition, building square footage, land square footage, and neighborhood. For example, year of construction could provide additional valuable information not already present in the Assessor's appraisal model. We observed that houses built since calendar year 2010 are 6.0 times as likely to be categorized as very good or excellent condition in the mass appraisal system, suggesting that Orleans Assessor's condition category is a good measure of a property's effective age. However, we observed that, even after controlling for building square footage, land square footage, neighborhood, and condition, houses built since 2010 still sold for 26.9% more than houses built before that time. The Orleans Assessor already has data on year of construction. Including this or other variables could improve the accuracy of the assessor's appraisals.

Recommendation 4: The Orleans Assessor should consider accounting for additional factors in its mass appraisal system such as accounting for construction year to obtain more accurate appraisal.

Summary of Management's Response: The Orleans Assessor agrees with this recommendation and states that additional criteria should be considered when deemed appropriate in a specific neighborhood valuation analysis. See Appendix A for management's full response.

Recommendation 5: The Orleans Assessor should ensure its mass appraisal system's COD for sales ratios in Orleans Parish is less than 15, as recommended by IAAO. This would help ensure the variability level of residential appraisals is fair and accurate for all property owners.

Summary of Management's Response: The Orleans Assessor disagrees with this recommendation and states that while he agrees that the COD should be under 15 per IAAO standards, he disputes the accuracy of the LLA's findings that they exceed that threshold. The Assessor further states that LTC, as regulatory body, conducts yearly ratio studies to review the accuracy of an Assessor's market values. In 2019 LTC completed a 2018 ratio study and found the Orleans Parish Assessor's office COD was 13.84. See Appendix A for management's full response.

LLA Additional Comments: LTC's ratio study was likely affected by the Orleans Assessor's practice of sales chasing, which causes appraisals to appear more uniform than they truly are. In other words, the COD would be artificially low (See Appendix B for additional information on LTC's 2018 ratio study). To obtain valid measurements that are unaffected by sales chasing for our ratio study, we used the recommendation by the IAAO, which recommends using sales that occurred after the last date for changing assessments to evaluate sales for each assessment year, provided such data are time-adjusted to match the appraisal date.

The Orleans Assessor may be undervaluing vacant land. As a result, owners of properties with structures (i.e., non-vacant land) may pay disproportionately more in taxes than vacant land owners. From tax years 2016 through 2020, vacant land was appraised at approximately 37.6% of its fair market value, based on sales ratios for vacant land parcels, indicating that vacant land may have been undervalued by 62.4%.

Currently, the Orleans Assessor sets vacant land rates using two approaches. The first approach is to look at actual sales of vacant land parcels, known as the sales comparison approach. The second is a residual approach referred to in appraisal literature as abstraction or extraction, which involves reviewing sales of parcels with structures on them, estimating the value of the structure using the cost approach, and subtracting the value of the structure from the total sales price of the parcel. The IAAO recognizes both techniques, among others, and notes that the sales comparison approach is generally preferable when comparable sales are available.

According to LTC officials, the assessor should value vacant land by looking at the sale of other vacant land with similar characteristics.

The median sales ratio for vacant land parcels was 37.6% for tax year 2020. This indicates that the Orleans Assessor's application of land appraisal techniques may have undervalued vacant land parcels. From tax years 2016 through 2020, vacant land was appraised at approximately 37.6% of its fair market value, based on sales ratios for vacant land parcels, indicating that vacant land may have been undervalued by 62.4%. Specifically, the Orleans Assessor's rates for vacant land values per square foot appear to be too low when the sales ratios for vacant land parcels are taken into consideration. Applying this result parish-wide, we estimate that these properties were undervalued by \$1.2 billion, or 166.0% of the total vacant land value of \$741.2 million. As a result, owners of properties with structures (i.e., those that have a building on their land) pay disproportionately more in taxes than vacant land owners. The Orleans Assessor should work with LTC to determine the most accurate methodology for appraising vacant land.

According to the Orleans Assessor, it does not use the rate that comparable vacant land has sold for, but instead appraises vacant land using the price per square footage of comparable land with structures on it, such as a house. For example, if a lot with a house on it is appraised for \$100,000, with the structure valued at \$75,000 and the land valued at \$25,000, and a vacant lot next door sales for \$50,000, the assessor will not value the vacant lot at \$50,000, but at \$25,000. The IAAO standards do not address specifically how to value vacant land.

Recommendation 6: The Orleans Assessor should work with LTC to determine the most accurate methodology for appraising vacant land so owners of properties with structures do not pay disproportionately more in taxes than vacant land owners, and vice-versa.

Summary of Management's Response: The Orleans Assessor disagrees with this recommendation and states that due to the scarcity of land real estate sales in Orleans Parish, they use the sales comparison and land abstraction method to determine land value by neighborhood based on its use and parcel size. The Assessor further states that vacant land values have never been a point of systematic disagreement between the Orleans Parish Assessor's Office and the LTC and that LTC has agreed with their land value in the vast majority of Orleans Parish land appeals. See Appendix A for management's full response.

LLA Additional Comments: LTC officials noted that the IAAO standards are not specific on this point and do not require the Orleans Assessor to appraise vacant land in the same way that land with buildings is assessed. As a result, we have recommended that the Orleans Assessor work with LTC to study this issue.

The Orleans Assessor engaged in “sales-chasing,” which means that it appraised individual residential and commercial properties that recently sold based on their sales price, which violates LTC rules and international best practices. We estimated that sold properties were assessed 14.9% higher than unsold properties as a result of this practice.

State law requires that all property be assessed uniformly throughout the state for each class of property.⁹ One practice that can interfere with uniform appraisals is “sales chasing.” LAC 61:V:213(D) defines sales chasing as “the procedure by which an individual property assessment is based upon the price the property sold for” and describes this practice as “expressly prohibited.” The IAAO recommends that local assessors avoid this practice and that state oversight agencies monitor and discourage this practice.^{10,11} The IAAO notes that sales chasing can create an inequitable treatment of taxpayers unless similar unsold parcels are reappraised at the same level as sold parcels. For example, if property values are increasing over time and an assessor only reappraised properties when they were sold in an arms-length transaction, this would mean that unsold properties would gradually become undervalued. Sales chasing will result in a lack of uniformity if the assessor does not reappraise unsold properties in a way that reflects changes in the real estate market.

The Orleans Assessor’s appraisals are partly based on “sales chasing,” which violates LTC rules and IAAO best practices. The Orleans Assessor’s appraisal process is designed to calculate a “proposed value” for all residential and commercial properties in the parish using the mass appraisal system. While the mass appraisal system calculates a proposed value for all properties based on the condition, neighborhood, and building and land square footage of each property, the Orleans Assessor appraised most properties with a recent sale based on the sales price. Specifically, of the 4,002 properties that had a validated sale in calendar year 2019, 2,400 (60.0%) were assessed at 90% or 100% of the sale price.¹² In July 2018, LTC cited the Orleans Assessor for sales chasing following its ratio study of Orleans Parish. A November 2019 report released by the Bureau of Governmental Research in New Orleans also noted that Orleans Assessor had engaged in sales chasing and recommended that Orleans Assessor discontinue the practice.

⁹ La. Const. Art. VII § 18(A), R.S. 47:2323.

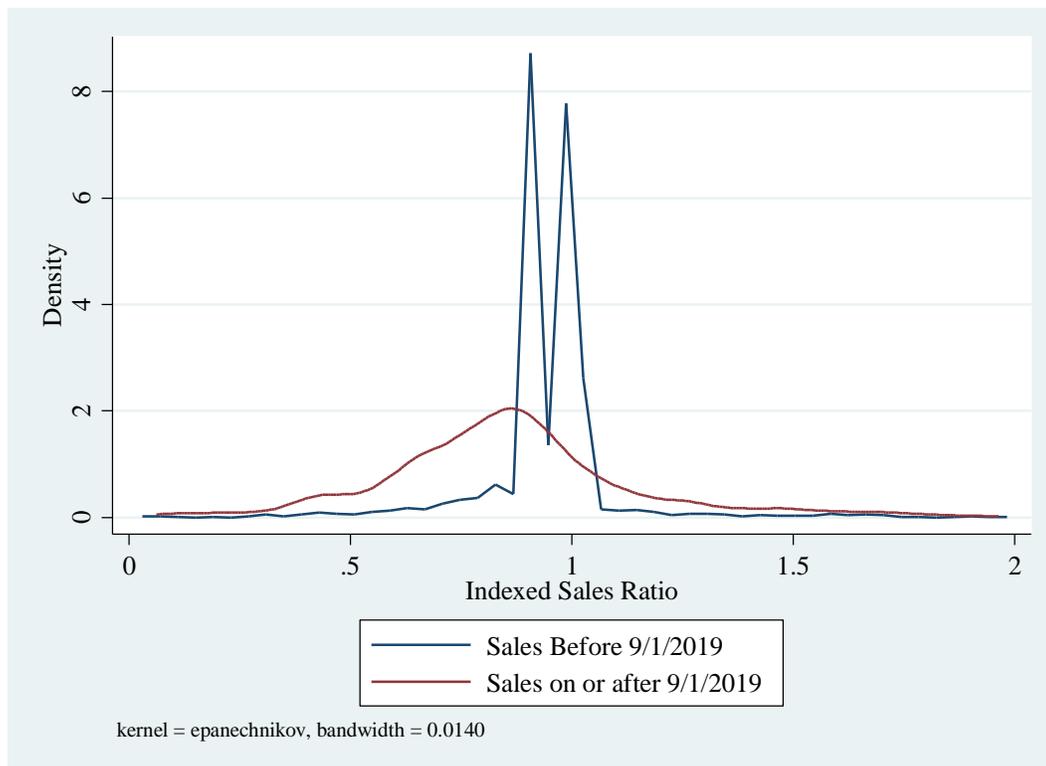
¹⁰ IAAO *Standard on Property Tax Policy*, https://www.iaao.org/media/standards/Standard_on_Property_Tax_Policy.pdf, item 4.1.1.3, p. 11.

¹¹ The IAAO *Standard on Ratio Studies* defines sales chasing as “the practice of using the sale of a property to trigger a reappraisal of that property at or near the selling price.” https://www.iaao.org/media/standards/Standard_on_Ratio_Studies.pdf, p. 43.

¹² For properties without a recent sale, the appraisal is based on the mass appraisal system-generated proposed value. For properties with a recent sale, the appraisal is based on the mass appraisal system-generated proposed value if the proposed value is equal to at least 90% of the most recent sale price. However, if a property recently sold and the mass appraisal system-generated proposed value is less than 90% of the sales price, the property is appraised at 90% of the sales price. In addition, we noted 1,177 properties that were appraised at exactly 100% of their purchase price.

Exhibit 9 shows the distribution of sales ratios for residential and commercial properties that sold in calendar year 2019 in Orleans Parish. The horizontal axis shows the sales ratio (appraised value divided by sales price), and the vertical axis shows the density of properties as a function of the sales ratio. The blue line shows sales that occurred before September 1, most of which were available to the Assessor to use for sales chasing. The red line shows the distribution of sales that occurred on or after September 1, too late for the Assessor to use for sales chasing. The distribution changes from having sharp peaks in the distribution at 90% and 100% of the sales price for properties that sold before September 1 to having a smooth, bell-curve shaped distribution for those that sold on or after September 1. This indicates that sales chasing was utilized.

Exhibit 9
Distribution of Sales Ratios in Orleans Parish
Residential Properties Sold in Calendar Year 2019



Source: Prepared by legislative auditor's staff using data from the Orleans Parish Assessor's Office.

We estimate that recently sold residential and commercial properties in Orleans Parish were assessed approximately 14.9% higher than properties that were not recently sold as a result of sales chasing, even after controlling for other property-specific characteristics, such as building area, land area, condition, and neighborhood. The IAAO Standard on Property Tax Policy notes that sales chasing can result in inequity in appraisals unless similar unsold parcels are reappraised at the same level as sold parcels. The Orleans Assessor did reappraise unsold properties, but the resulting appraised values were not as high as the appraised values of houses that did have sales. We found that sold properties were assessed

14.9% higher than unsold properties when controlling for their size, condition, and neighborhood as a result of sales chasing. Orleans Assessor officials stated that they do not engage in sales chasing, but did note that in some instances properties were reappraised following a sale to account for character changes, such as major renovations. To show the effects of sales chasing, we recalculated the value for each property that had an appraised value within one percentage point of 90% or 100% of the most recent sales price. The recalculated value is equal to the value proposed by Orleans Assessor's computer assisted mass appraisal system, if available, or else the previous year's appraised value. As shown in Exhibit 10, sales chasing caused appraised values to rise by \$385.8 million (0.6% of the \$63.3 billion in total appraised values) in tax year 2020 and may have contributed to a lack of uniformity in property appraisals in Orleans Parish.

Exhibit 10			
Effect of Sales Chasing on Assessed Values by Class of Property			
Tax Year 2020			
Property Classification	Before Sales Chasing	After Sales Chasing	Effect of Sales Chasing
Commercial	\$9,349,382,296	\$9,454,061,260	\$104,678,964
Residential	\$31,147,636,714	\$31,419,582,370	\$271,945,656
Exempt	\$22,464,073,602	\$22,473,269,260	\$9,195,658
Total	\$62,961,092,612	\$63,346,912,890	\$385,820,278
Source: Prepared by legislative auditor's staff using data from Orleans Assessor.			

According to the Orleans Assessor, he values recently sold houses more because they were probably updated or experienced a change in character before it was sold, such as a new addition or renovations. However, this process does not account for houses that were updated in the neighborhood and not sold, and can result in disparities in assessments.

Recommendation 7: The Orleans Assessor should avoid using sales prices to appraise individual properties, as recommended by IAAO standards and required by LTC regulations.

Summary of Management's Response: The Orleans Assessor disagrees with this recommendation and states they need to collect sales information in order to develop their computer assisted models that are the basis for revaluation of a neighborhood. The Assessor further states that good assessment practices can be construed as sale chasing depending on how and when the statistical testing data is used and for what purpose. See Appendix A for management's full response.

LLA Additional Comments: The Orleans Assessor issued a memorandum dated June 18, 2019 instructing staff to reappraise properties with recent sales based on the sales price. This is the definition of sales chasing as defined in LAC 61:V:213(D).

APPENDIX A: MANAGEMENT'S RESPONSE



ORLEANS PARISH ASSESSOR'S OFFICE
ERROLL G. WILLIAMS, ASSESSOR

1300 Perdido Street | City Hall-Room 4E01 | New Orleans, Louisiana 70112

March 25, 2020

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
PO Box 94397
Baton Rouge, LA 70804

Dear Mr. Purpera:

Enclosed is my responses to the performance audit report conducted by your office on the Orleans Parish Assessor's Office. Also, included is the completed check list via e-mail and regular mail to your office.

Thank you for you for your kind consideration and cooperation. Please do not hesitate to contact me at 504-658-1313.

Sincerely,

A handwritten signature in blue ink, appearing to read "Erroll G. Williams", enclosed in a blue oval.

Erroll G. Williams, Assessor
Parish of Orleans

EGW/mmk

Cc: Karen Leblanc, CIA, MSW
Gina Brown, MPA, CIA, CGAP, CRMA
Edward Seyler, Economist
Claude Mauberret, Chief Deputy
Darren Mire, Director Assessment Valuation
Marina M. Kahn, Administrative Direcotr



Louisiana Legislative Auditor
Performance Audit Services

Checklist for Audit Recommendations

Agency: Orleans Parish Assessor

Audit Title: Analysis of Residential and Commercial Property Appraisals in Orleans Parish for Tax Year 2020

Audit Report Number: 40190022

Instructions to Audited Agency: Please fill in the information below for each recommendation. A summary of your response for each recommendation will be included in the body of the report. The entire text of your response will be included as an appendix to the audit report.

Finding 1: According to Orleans Assessor officials, they did not reappraise 17.9% of residential and commercial properties for tax year 2020 because in their opinion, reappraising 25% of properties each year during a four-year cycle, as opposed to appraising all properties in the first year, complied with the constitutional requirement of reappraising properties once every four years. For an additional 37.8% of residential and commercial properties, only the land was reappraised, not the structures, which did not satisfy the requirements of state regulations. Officials further stated that they decided not to reappraise certain areas because they were not comfortable with the accuracy of values produced by their new mass appraisal model, which was undervaluing small houses and overvaluing large houses in these neighborhoods.

Recommendation 1: Orleans Assessor should reappraise all properties in Orleans Parish according to LTC's quadrennial reappraisal rule unless and until the rule is invalidated by legislation or a court ruling that would apply to Orleans Assessor.

Does Agency Agree with Recommendation Agree Disagree

Agency Contact Responsible for Recommendation:

Name/Title: Erroll G. Williams, Assessor

Address: New Orleans City Hall – 1300 Perdido Room 4E01

City, State, Zip: New Orleans, LA 70112

Phone Number: 504-658-1313

Email: opba3md@bellsouth.net

<i>Recommendation 2: Orleans Assessor should ensure its mass appraisal system for valuing all properties in the parish is accurate and reliable.</i>
Does Agency Agree with Recommendation? <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Agency Contact Responsible for Recommendation:
<i>Name/Title: Erroll G. Williams, Assessor</i>
<i>Address: New Orleans City Hall – 1300 Perdido Room 4E01</i>
<i>City, State, Zip: New Orleans, LA 70112</i>
<i>Phone Number: 504-658-1313</i>
<i>Email: opba3md@bellsouth.net</i>

Finding 2: Residential property values increased for tax year 2020 because this was a reappraisal year during which assessors are required by state law to revalue properties to account for changes in real estate prices over the past four years. Specifically, appraised values increased sharply in tax year 2020 because residential property real estate prices increased by 22.4% over the past four years.

<i>Recommendation 3: The Orleans Assessor should continue to update its appraisal system to produce appraisal levels in line with the real estate market in Orleans Parish.</i>
Does Agency Agree with Recommendation? <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree
Agency Contact Responsible for Recommendation:
<i>Name/Title: Erroll G. Williams, Assessor</i>
<i>Address: New Orleans City Hall – 1300 Perdido Room 4E01</i>
<i>City, State, Zip: New Orleans, LA 70112</i>
<i>Phone Number: 504-658-1313</i>
<i>Email: opba3md@bellsouth.net</i>

Finding 3: The Orleans Assessor's appraisals for tax year 2020 did not meet international appraisal guidelines for variability for each individual residential property, which affects the accuracy of appraisals. As a result, some property owners may have paid more than their fair share, while others may have paid less.

Recommendation 4: Orleans Assessor should consider accounting for additional factors in its mass appraisal system such as accounting for construction year to obtain more accurate appraisal.

Does Agency Agree with Recommendation? Agree Disagree

Agency Contact Responsible for Recommendation:

Name/Title: Erroll G. Williams, Assessor

Address: New Orleans City Hall – 1300 Perdido Room 4E01

City, State, Zip: New Orleans, LA 70112

Phone Number: 504-658-1313

Email: opba3md@bellsouth.net

Recommendation 5: Orleans Assessor should ensure its mass appraisal system's coefficient of dispersion (COD) for sales ratios in Orleans Parish is less than 15, as recommended by IAAO. This would help ensure the variability level of residential appraisals is fair and accurate for all property owners.

Does Agency Agree with Recommendation? Agree Disagree

Agency Contact Responsible for Recommendation:

Name/Title: Erroll G. Williams, Assessor

Address: New Orleans City Hall – 1300 Perdido Room 4E01

City, State, Zip: New Orleans, LA 70112

Phone Number: 504-658-1313

Email: opba3md@bellsouth.net

Finding 4: The Orleans Assessor may be undervaluing vacant land. As a result, owners of properties with structures (i.e., non-vacant land) may pay disproportionately more in taxes than vacant land owners. From tax years 2016 through 2020, vacant land was appraised at approximately 61.4% of its fair market value, based on sales ratios for vacant land parcels, indicating that vacant land may have been undervalued by 38.6% or \$204.4 million.

Recommendation 6: Orleans Assessor should work with LTC to determine the most accurate methodology for appraising vacant land so owners of properties with structures do not pay disproportionately more in taxes than vacant land owners, and vice-versa.

Does Agency Agree with Recommendation? Agree Disagree

Agency Contact Responsible for Recommendation:

Name/Title: Erroll G. Williams, Assessor

Address: New Orleans City Hall – 1300 Perdido Room 4E01

City, State, Zip: New Orleans, LA 70112

Phone Number: 504-658-1313

Email: opba3md@bellsouth.net

--

Finding 5: The Orleans Assessor engaged in “sales-chasing” which means that it appraised individual residential and commercial properties that recently sold based on their sales price, which violates the Louisiana Tax Commission rules and international best practices. We estimated that sold properties were assessed 14.9% higher than unsold properties as a result of this practice.

Recommendation 7: The Orleans Assessor should avoid using sales prices to appraise individual properties, as recommended by IAAO standards and required by LTC regulations.

Does Agency Agree with Recommendation? Agree Disagree

Agency Contact Responsible for Recommendation:

Name/Title: Erroll G. Williams, Assessor

Address: New Orleans City Hall – 1300 Perdido Room 4E01

City, State, Zip: New Orleans, LA 70112

Phone Number: 504-658-1313

Email: opba3md@bellsouth.net

--

**ASSESSOR'S OFFICE RESPONSE TO LOUISIANA LEGISLATIVE AUDITOR'S AUDIT
RECOMMENDATIONS**

Finding 1: According to Orleans Assessor officials, they did not reappraise 17.9% of residential and commercial properties for tax year 2020 because in their opinion, reappraising 25% of properties each year during a four-year cycle, as opposed to appraising all properties in the first year, complied with the constitutional requirement of reappraising properties once every four years. For an additional 37.8% of residential and commercial properties, only the land was reappraised, not the structures, which did not satisfy the requirements of state regulations. Officials further stated that they decided not to reappraise certain areas because they were not comfortable with the accuracy of values produced by their new mass appraisal model, which was undervaluing small houses and overvaluing large houses in these neighborhoods.

***OPAO Response to #1 Recommendation:** Orleans Assessor should reappraise all properties in Orleans Parish according to LTC's quadrennial reappraisal rule unless and until the rule is invalidated by legislation or a court ruling that would apply to Orleans Assessor*

On the subject of reappraisal the Constitution reads: "All property subject to taxation shall be reappraised and valued in accordance with this Section, **at intervals of not more than four years.**" Reappraising 25% of properties each year within a four-year cycle is well within the constitutional authority granted this office. This was brought to question by the Louisiana Tax Commission (LTC) with their new policy requiring all assessors revalue all properties at the same time once every four years. That question was answered when the November 13, 2018 judgment struck down the Tax Commission's regulations on the grounds that those regulations were unconstitutional and in excess of the Tax Commission's rulemaking authority. Further, the fact the LTC is now attempting to amend the Constitution to get it in line with their policy by way of HB 504 and 508 of the 2020 Legislative session by Rep. Hilferty - is proof that our policy is within the Constitutional requirements. Her constitutional amendment and law change if passed would require all properties to be revalued in the same year in a four-year period and expressly prohibits an Assessor from reappraising and valuing only a portion of the property subject to taxation in a parish each year within the four-year interval - There is no constitutional, statutory or jurisprudential authority for the suggestion that all property in a parish must be assessed in a single year. Additionally, I as Assessor, personally informed the Louisiana Tax Commission at their hearing in April 2019 that my Office was not able to re-assess all 167,000 parcels for 2020. We also informed them that those neighborhoods omitted would be re-assessed the following tax year. Therefore, we believe your finding here is incorrect.

Additionally, we disagree with your allegations that because 37% of the properties only reflected land rate changes that it did not satisfy the requirements of state regulations. The Assessor's Office reviewed those neighborhoods where land rate changes were made and were

**ASSESSOR'S OFFICE RESPONSE TO LOUISIANA LEGISLATIVE AUDITOR'S AUDIT
RECOMMENDATIONS**

satisfied that a building value change was not necessary. The Louisiana Tax Commission rules do not provide that an Assessor must adjust both the land and building values to determine fair market value. We are required to review each property. In some cases, an adjustment to improvement, land, or both is not necessary as their total values are reflective of current fair market value. We believe that our revaluations of those properties with land only adjustments reflected that there was not a significant change in the total value of those properties to warrant a change in the total assessment value. Further, there is no constitutional law or state statute that requires both land and building value have to be changed to achieve market values.

OPAO Response to #2 Recommendation Orleans Assessor should ensure its mass appraisal system for valuing all properties in the parish is accurate and reliable

We agree and will continue to work to ensure that our mass appraisal system is valuing properties accurately and reliably.

Finding 2: Residential property values increased for tax year 2020 because this was a reappraisal year during which assessors are required by state law to revalue properties to account for changes in real estate prices over the past four years. Specifically, appraised values increased sharply in tax year 2020 because residential property real estate prices increased by 22.4% over the past four years.

OPAO Response to #3 Recommendation: The Orleans Assessor should continue to update its appraisal system to produce appraisal levels in line with the real estate market in Orleans Parish

We agree and this office continues to strive to update our appraisal system to produce appraisal levels in line with the real estate market in Orleans Parish.

OPAO Response to #4 Recommendation: Orleans Assessor should consider accounting for additional factors in its mass appraisal system such as accounting for construction year to obtain more accurate appraisals. We agree that including construction and renovation dates are useful components to determining fair market value.

We agree that this additional criteria should be considered when deemed appropriate in a specific neighborhood valuation analysis. However, the diversity of neighborhoods in Orleans Parish, the extensive number of historic properties, as well as older properties, make obtaining reliable data to reflect differences an ongoing challenge. Please note that as of 2011 we began receiving electronically all building information, plans, permits, etc. of new constructions,

**ASSESSOR'S OFFICE RESPONSE TO LOUISIANA LEGISLATIVE AUDITOR'S AUDIT
RECOMMENDATIONS**

renovations, additions and demolitions from the City and have factored this information into our valuations. We will commit to strive to obtain additional, accurate data.

OPAO Response to #5 Recommendation: Orleans Assessor should ensure its mass appraisal system's coefficient of dispersion (COD) for sales ratios in Orleans Parish is less than 15, as recommended by IAAO. This would help ensure the variability level of residential appraisals is fair and accurate for all property owners.

We agree that the Coefficient of Dispersion (COD) should be under 15 per IAAO and LTC recommendations. However, we dispute the accuracy of your findings that we exceed that threshold. The Louisiana Tax Commission (LTC), as a regulatory body, conducts Yearly Ratio Studies to review the accuracy of an Assessor's market values. In 2019 they completed a 2018 ratio study and found the Orleans Parish Assessor's office COD was at 13.84. We continue to work to improve this figure and strongly believe we are in compliance and under a 15 COD. A COD only denotes how closely each value is to other values. The results of a COD can become skewed and unreliable the more variability of housing you have in a sample, as is found in New Orleans.

Finding 4: The Orleans Assessor may be undervaluing vacant land. As a result, owners of properties with structures (i.e., non-vacant land) may pay disproportionately more in taxes than vacant land owners. From tax years 2016 through 2020, vacant land was appraised at approximately 61.4% of its fair market value, based on sales ratios for vacant land parcels, indicating that vacant land may have been undervalued by 38.6% or \$204.4 million.

OPAO Response to #6 Recommendation: Orleans Assessor should work with LTC to determine the most accurate methodology for appraising vacant land so owners of properties with structures do not pay disproportionately more in taxes than vacant land owners, and vice-versa.

We disagree with this recommendation. Due to the scarcity of land real estate sales in Orleans Parish we use the sales comparison and land abstraction method to determine land value by neighborhood based on its use and parcel size. Vacant land values have never been a point of systematic disagreement between the Orleans Parish Assessor's Office and the Louisiana Tax Commission. In fact, the commission has agreed with our land value in the vast majority of Orleans Parish land appeals.

**ASSESSOR'S OFFICE RESPONSE TO LOUISIANA LEGISLATIVE AUDITOR'S AUDIT
RECOMMENDATIONS**

Finding 5: The Orleans Assessor engaged in "sales-chasing" which means that it appraised individual residential and commercial properties that recently sold based on their sales price, which violates the Louisiana Tax Commission rules and international best practices. We estimated that sold properties were assessed 14.9% higher than unsold properties as a result of this practice.

OPAO Response to #7 Recommendation: *The Orleans Assessor should avoid using sales prices to appraise individual properties, as recommended by IAAO standards and required by Louisiana Tax Commission regulations.*

We disagree with this recommendation. The Assessor's office needs to collect sales information in order to develop our computer assisted models that are the basis for revaluation of a neighborhood. Good assessment practices can be construed as sale chasing depending on how and when the statistical testing data is used and for what purpose. If done properly, it will reflect the estimated fair market value of properties in a respective neighborhood. When revaluation is performed on a neighborhood, those properties that sold recently are included and adjusted with all properties to reflect the values of that neighborhood based upon their size, grade and condition. According to the IAAO Standard on Ratio Studies, CODs less than 5 should be considered suspect and possibly indicative of selective reappraisal of selling parcels (sales chasing). Neither your calculated COD of 18.7, nor the LTC's 13.84, corroborate sales chasing as our COD is not below 5.

CONCLUSION

This 2020 audit was generated by the fact that the Orleans Parish Assessors Office (OPAO) complied with a Louisiana Tax Commission (LTC) ordered valuation date even though this was outside the scope of its authority, resulting in an unusually high number of valuations for my appraisal staff.

The Orleans Parish Assessor's Office mission is to determine the fair market value of all properties in the parish in a fair and equitable manner. Lost in all of this analysis is the fact that fair market value is not an exact science, but an estimate of value as of a specific date. For the 2020 tax year Orleans Parish revalued 134,000 properties based on a 1-1-2019 valuation date. All sales used to adjust comparable properties reflect this valuation date and we believe indicate a fair valuation in each neighborhood.

Unlike the LTC sales ratio studies which we have successfully pass, your review provided no facts for our review and rebuttal. Because of this one cannot reasonably determine the

**ASSESSOR'S OFFICE RESPONSE TO LOUISIANA LEGISLATIVE AUDITOR'S AUDIT
RECOMMENDATIONS**

accuracy of the conclusions drawn in this report with respect to the measurement of assessment uniformity.

Since Hurricane Katrina, Orleans Parish has been a rapidly changing real estate market. This rate of change in the real estate market and the unusually high number of valuations (134,000), forced this office to step outside its normal operations capacity, resulting in a higher volume of informal property appeals. Some of these valuations were adjusted during this process based on evidence provided by the taxpayer, previously unknown to our office and warranted further consideration. Despite this high number of valuations, less than 4% filed formal appeals to the Orleans Parish Board of Review.

Our practice, while open to public scrutiny, is done with the intent of following best practice guidelines, tax commission rules and regulations and state laws. As an Orleans Parish Assessor for more than 30 years, I have a strong history of fair, transparent and quality public service. I believe in continuing to build on the foundations established by my office since the advent of a single assessor system. The valuation methods being implemented will have a long lasting effect and provide uniformity to benefit both government and the citizens of Orleans Parish.

APPENDIX B: SCOPE AND METHODOLOGY

This report provides the results of our performance audit of the Orleans Parish Assessor (Orleans Assessor). We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. This audit covered tax years 2016 through 2020. Our audit objective was:

To analyze residential and commercial property appraisals in Orleans Parish for tax year 2020 to determine why not all properties were reappraised, why property values increased significantly, and whether the Orleans Assessor engaged in “sales chasing.”

The methodology used in preparing this report was developed uniquely to address the stated objectives; therefore, this report is more limited in scope than an audit performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. However, we believe the evidence obtained provides a reasonable basis for our findings and conclusions. To answer our objective, we reviewed internal controls relevant to the audit objectives and performed the following audit steps:

- Researched and reviewed relevant state statutes and regulations related to residential property appraisals. This included researching state law, Orleans Assessor’s policies and procedures, and standards by the International Association of Assessing Officers (IAAO).
- Interviewed Orleans Assessor staff regarding their appraisal methodology and processes and how to correctly interpret the results from their Computer-Assisted Mass Appraisal (mass appraisal system) system.
- Interviewed Louisiana Tax Commission (LTC) staff on mass appraisal techniques, LTC’s oversight of assessors, rules on sales chasing, and quadrennial appraisals.
- Obtained and analyzed data from Orleans Assessor’s Computer-Assisted Mass Appraisal (mass appraisal system) system for tax years 2012 through 2020. To verify the completeness and accuracy of this data, obtained LTC’s tax rolls from this same time period, and verified that the information we obtained from mass appraisal system was complete and accurate.
- Obtained and analyzed LTC’s ratio study results for Orleans Parish from tax years 2014 and 2017 to identify any issues LTC may have had with Orleans property appraisals during these tax years.
- Obtained a list of validated sales for January 2015 through January 2020 from the Orleans Assessor to conduct an independent ratio study, including an analysis of

appraisal levels (as measured by median sales ratios) and accuracy (as measured by coefficients of dispersion). In addition, we used this information determine the effects of sales chasing.

- Performed a ratio study on the Orleans Assessor's appraisals for tax years 2016 through 2020. The IAAO recommends using ratio studies to evaluate the accuracy of assessors' appraisals. A ratio study shows whether property values in a parish are above or below the prices observed in the real estate market. For properties that sold near the valuation date, a sales ratio is calculated by dividing the assessor's appraised value by the property's sales price. If the median sales ratio is between 90% and 110%, then the appraisal level is correct. LTC performs ratio studies each year to determine if each assessor's valuations are uniform and accurate. We conducted a ratio study to evaluate trends in appraisal levels in Orleans Parish and to determine if the sharp increase in appraisals in tax year 2020 caused properties to be overvalued. To conduct this ratio study, we compared sales prices of individual properties with Orleans Assessor's fair market values. We also obtained the fair market values proposed by Orleans Assessor's mass appraisal system. We excluded properties that did not have a condition coded as excellent, very good, good, average, or fair for tax years 2019 and 2020. This excluded properties with poor condition, damaged condition, or invalid condition codes. Per IAAO guidelines for ratio studies, we excluded properties whose sales ratios were in the top 5% and bottom 5%.
- Analyzed sales ratios for commercial properties, but there were only 32 properties with validated sales in the last four months of calendar year 2020 that could be used to evaluate appraised values for tax year 2020. As a result, we do not discuss commercial properties in our main results.
- Reviewed LTC's 2018 ratio study results on Orleans Parish and found that the ratio study was likely affected by the Orleans Assessor's practice of sales chasing, which causes appraisals to appear more uniform than they truly are. In other words, the COD would be artificially low. Specifically, LTC's ratio study compared assessed values for tax year 2018 with sales that occurred between July 1, 2014 and June 30, 2015. As a result, the sales that LTC used for the ratio study were available to the Assessor to use for sales chasing, which is discussed later in this report. The IAAO Standard on Ratio Studies notes that sales chasing by an assessor can cause the appraisals for a given jurisdiction to appear more uniform than they truly are. LTC's ratio study for tax year 2018 in Orleans Parish included 499 properties, of which 114 were appraised at exactly 90% of the sales price, and 129 were appraised at exactly 100% of the sales price. With 48.7% of the sample concentrated on two values (rounded to the nearest hundredth of a percent), this suggests that sales chasing affected the LTC's sample.

Following this ratio study, LTC notified the Orleans Assessor that appraisals in Orleans Parish appeared to be based on sales chasing. To obtain valid measurements that are unaffected by sales chasing, we used the recommendation by the IAAO, which recommends using sales that occurred after the last date for

changing assessments to evaluate sales for each assessment year, provided such data are time-adjusted to match the appraisal date (https://www.iaao.org/media/standards/Standard_on_Ratio_Studies.pdf p. 33).

- Provided our results to the Orleans Assessor for feedback on our analysis.

APPENDIX C: VARIABILITY OF APPRAISALS OF RESIDENTIAL PROPERTIES WITH STRUCTURES TAX YEAR 2020

Group	Median Indexed Sales Ratio	Coefficient of Dispersion
Reappraised	93.7	25.5
Partially reappraised (land only)	85.4	20.6
Neither land nor building reappraised	81.7	17.3
Total	89.8	20.0
Source: Prepared by legislative auditor's staff using data from the Orleans Assessor.		