STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Assessment Practices for Businesses Claiming
Industrial Property Tax Exemptions

April 2003

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Assessment Practices for Businesses Claiming Industrial Property Tax Exemptions

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OFFICE OF
LEGISLATIVE **A**UDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 23, 2003

The Honorable John J. Hainkel, Jr.,
President of the Senate
The Honorable Charles W. DeWitt, Jr.,
Speaker of the House of Representatives

Dear Senator Hainkel and Representative DeWitt:

We have performed a limited examination of Assessment Practices for Businesses Claiming Industrial Property Tax Exemptions for 12 of the 70 tax assessors in the state. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes. The examination focused on the assessment practices of 11 parish tax assessors and one of the seven assessors in Orleans Parish. They are as follows:

- Ascension
- Bossier
- Cameron
- East Baton Rouge
- Evangeline
- Lafayette
- Morehouse
- Natchitoches
- Orleans Third Municipal
- St. Tammany
- West Carroll
- West Feliciana

This report presents background, scope and methodology, and our findings and recommendations. As a result of this examination, we also identified four matters that the legislature may wish to consider.

We gave each of the 12 assessors the findings specific to his or her parish. Appendix D contains six of the assessors' responses to the audit. The other six assessors chose not to respond. We also obtained a response from the Louisiana Tax Commission, which is included as Appendix C. Appendix E and Appendix F contain responses from the Department of Economic Development and the Department of Revenue, respectively, relating to relevant sections of the report. I hope that this report will benefit you in your legislative decision-making process.

Sincerely,

Grover C. Austin, CPA
First Assistant Legislative Auditor

GCA/ss

[INDUSTRIALTAX]

Assessment Practices for Businesses Claiming Industrial Property Tax Exemptions

CONCLUSIONS

1. **The Louisiana Tax Commission (LTC) has not provided adequate guidance and oversight of tax assessors, which has resulted in the following problems:**

    a. **Assessors lack written policies and procedures that would help ensure that they consistently, fairly, and accurately assess real and personal property subject to industrial property tax exemptions.**

    b. **Some assessors' record-keeping practices do not ensure that all exemptions are properly accounted for in regard to exemption amounts and effective dates. This lack of proper accounting is mainly because of the absence of checks and balances in the assessors' practices.**

    c. **Assessors do not sufficiently verify that information reported by businesses on self-reporting personal property tax forms is correct.**

    d. **Assessors value industrial real property inconsistently throughout the state. Some assessments did not comply with LTC regulations.**

    e. **Assessors lack written policies and procedures that would help ensure that all taxable property is identified.**

2. **In addition, the assessors do not always ensure that businesses submit all information necessary to make appropriate assessments. For example,**

    a. **In general, assessors estimate that businesses do not return up to 50% of annual self-reporting personal property tax forms that the assessors mail them. As a result, some assessors arbitrarily assess taxes for businesses based on the previous year's reporting form.**

    b. **Businesses often do not include vital information necessary for verification and assessment on their self-reporting personal property tax forms. For example, many businesses we sampled did not include the required itemized fixed asset listing. In addition, some businesses submitted their own versions of the tax forms, which often did not include vital data needed to make assessments.**

3. **The list of exemption contracts that the Department of Economic Development (DED) sends to the assessors each year often contains inaccuracies and omissions, which can result in inaccurate assessments. In addition, most assessors rely solely on DED to provide critical information on exemption contracts without verifying the information.**

4. **We identified at least $140,000 in property taxes that should have been paid but was not. The impact of other errors we identified could not be estimated.**

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Assessment Practices for Businesses Claiming Industrial Property Tax Exemptions

BACKGROUND

Article 7, Section 21(F) of the 1974 Constitution of the State of Louisiana establishes the legal framework for the Industrial Property Tax Exemption Program. The Industrial Property Tax Exemption Program was created in 1936 to induce manufacturing establishments to locate or expand in Louisiana. The program exempts certain industrial property from local property tax for up to 10 years.

The State Board of Commerce and Industry and the governor approve all exemption contracts. The Department of Economic Development (DED) is responsible for administering the program. Even though exempt property is not taxed, Article 7, Section 21(F) of the 1974 Louisiana Constitution requires that assessors record it on the tax rolls. Upon expiration of exemptions, the property becomes taxable and should be assessed by local assessors.

The Louisiana Tax Commission (LTC) oversees local tax assessors. Louisiana Revised Statute (R.S.) 47:1837(D) requires the LTC to develop and issue regulations for assessment administration. It also requires the LTC to develop criteria for uniform assessments. The LTC is required to conduct ratio studies to measure the level of assessments and the degree of uniformity for each major class and type of property in each parish.

R.S. 47:1903 gives assessors the authority to list and assess property. Each parish tax assessor is elected for a term of four years in accordance with R.S. 47:1901. Orleans Parish has seven district assessors who serve four-year terms. Appendix A provides a summary of selection methods and term lengths for assessors in other southeastern states. Based on a survey we conducted of the 70 local assessors, businesses had approximately 5,663 active industrial property tax exemption contracts totaling over $30 billion in tax-exempt property as of December 31, 2001 (July 31, 2001, for Orleans Parish). Exhibit 1 summarizes the approximate number of industrial property tax exemption contracts by parish as of December 31, 2001.

Assessment Practices for Businesses Claiming Industrial Property Tax Exemptions

Exhibit 1
Approximate Number and Amount of Exemption Contracts
As of December 31, 2001*

Parish	Number of Active Contracts	Dollar Amount of Active Contracts	Parish	Number of Active Contracts	Dollar Amount of Active Contracts
Acadia	22	$54,584,012	Orleans, District I *	5	$6,739,710
Allen	25	$35,721,955	Orleans, District II *	0	$0
Ascension	**405**	**$3,814,623,540**	Orleans, District III*	94	$262,203,768
Assumption	20	$112,400,575	Orleans, District IV *	0	$0
Avoyelles	13	$3,564,666	Orleans, District V *	2	$3,228,620
Beauregard	81	$238,599,669	Orleans, District VI *	5	$16,565,377
Bienville	47	$56,055,129	Orleans, District VII *	0	$0
Bossier	117	$123,746,740	Ouachita	333	$645,244,276
Caddo	**465**	$1,002,483,657	Plaquemines	88	$676,727,544
Calcasieu	**484**	**$5,676,379,510**	Pointe Coupee	41	$202,294,218
Caldwell	2	$1,356,400	Rapides	117	$357,885,020
Cameron	1	$62,531	Red River	11	$7,582,484
Catahoula	8	$4,959,417	Richland	24	$12,522,935
Claiborne	12	$11,287,136	Sabine	26	$30,585,158
Concordia	4	$3,492,149	St. Bernard	68	$434,583,085
DeSoto	76	$490,105,313	St. Charles	223	**$3,969,598,696**
East Baton Rouge	**558**	**$3,302,587,759**	St. Helena	6	$15,073,938
East Carroll	2	$137,957	St. James	130	$1,370,097,306
East Feliciana	12	$5,998,638	St. John the Baptist	120	$588,510,715
Evangeline	34	$356,799,512	St. Landry	59	$100,633,910
Franklin	18	$9,111,872	St. Martin	52	$102,466,430
Grant	25	$19,777,557	St. Mary	101	$304,394,050
Iberia	80	$137,700,000	St. Tammany	23	$13,548,827
Iberville	352	**$1,982,872,645**	Tangipahoa	58	$68,000,649
Jackson	25	$45,802,977	Tensas	2	$1,472,560
Jefferson	**373**	$836,150,193	Terrebonne	41	$70,627,537
Jefferson Davis	1	$950,136	Union	26	$73,654,850
Lafayette	116	$165,761,897	Vermilion	12	$17,860,196
Lafourche	32	$170,251,516	Vernon	5	$48,050,621
LaSalle	4	$9,786,137	Washington	40	$133,924,016
Lincoln	60	$207,702,224	Webster	77	$131,840,414
Livingston	35	$40,458,310	West Baton Rouge	159	$744,863,739
Madison	3	$1,320,617	West Carroll	10	$3,933,617
Morehouse	55	$195,929,858	West Feliciana	38	$232,829,569
Natchitoches	54	$537,667,736	Winn	43	$85,297,284
			TOTAL	**Approx. 5,660**	**Approx. $30,389,031,059**

*****Orleans Parish contracts are as of July 31, 2001.
Source: Prepared by legislative auditor's staff using data from local assessors' responses to our survey.

As the exhibit shows, East Baton Rouge Parish had the largest number of active exemption contracts, followed by Calcasieu, Caddo, Ascension, and Jefferson Parishes. These figures are highlighted in blue. Calcasieu had the highest dollar amount, followed by St. Charles, Ascension, East Baton Rouge, and Iberville Parishes. These figures are highlighted in red.

Overview of Processes

Industrial Property Tax Exemption Process

Manufacturing businesses apply for industrial property tax exemptions through the Department of Economic Development (DED). The State Board of Commerce and Industry (SBCI) approves or denies each application in a public hearing and forwards all applications to the governor. If the governor approves the applications, the businesses enter into five-year exemption contracts with DED. The contracts are renewable for an additional five years. Thus, the maximum number of years for which an exemption should be given is 10 years. Once the businesses have completed construction of the projects or additions to their facilities for which the exemptions were awarded, they are required to submit project completion reports and affidavits of final cost that specify the projects' construction periods and the amounts of property subject to exemption. DED sends copies of the contracts, the project completion reports, the affidavits of final costs, and all correspondence to the local assessors. Each year, DED also sends each assessor a summary list of all active and expired contracts so that the assessors can ensure that businesses are claiming the proper exemption amounts and determine which previously-exempt property will become taxable in the coming year.

Assessment Process

Taxable property used in general business activity includes both personal and real property. Personal (movable) property is defined as businesses' inventory, furniture, fixtures, leasehold improvements, and machinery and equipment. Real (immovable) property is defined as land, buildings, and improvements. According to LTC data, approximately 67% to 69% of a business's property is composed of personal property. Each year, the local assessors send the Self Reporting - Personal Property Report Form (i.e., the Louisiana Ad Valorem Tax (LAT) 5 form or its equivalent) to each business in their parishes. For those businesses receiving Industrial Property Tax Exemptions, the assessors should also send the Self Reporting - Personal Property Tax Report - Tax Exemption Analysis Form (i.e., the LAT 5-A form or its equivalent). The businesses are required to complete and return these forms along with itemized fixed asset listings and/or depreciation schedules by April 1 or 45 days after receipt, whichever is later. For real property, the assessors may also physically inspect the businesses' land and buildings every four years. They may also choose to have the businesses complete the Self Reporting - Real Property Tax Report - Commercial and Industrial Form (i.e., the LAT 4 form) or its equivalent.

Although LTC regulations do not require the assessors to verify information reported on these forms, the International Association of Assessment Officers (IAAO) and sound accounting and auditing practices dictate that the information should be verified. Exhibit 2 summarizes reporting requirements related to taxable and exempt personal and real property. It also includes ideal verification methods and the assessment techniques that Louisiana assessors use.

Exhibit 2
Requirements Related to Real and Personal Property for Commercial and Industrial Concerns

Type of Property	Self-Reporting Property Tax Form Used	Assessment Frequency	Ideal Verification Methods	Fair Market Value Determination Used by Louisiana Assessors	Percent of Property's Fair Market Value Subject to Tax
Personal Taxable Property	Self Reporting - Personal Property Report Form (LAT 5)	Every year	• Compare information on tax forms to itemized fixed asset listing; compare itemized fixed asset listing to balance sheet. • Inspect property to verify information on tax forms. • Compare information on current tax forms to previous year's forms to check for unusual changes. • Periodically conduct audits.	• LTC recommends using cost approach and depreciating actual cost using LTC's depreciation factor based on each type of equipment's economic useful life.	15%
Real Taxable Property (Commercial and Industrial Buildings and Improvements)	Self Reporting - Real Property Tax Report - Commercial and Industrial Form (LAT 4)	Every year; should be reappraised and valued at intervals of not more than four years	• If form is used, compare to itemized fixed asset listing and compare itemized fixed asset listing to balance sheet. • Inspect property.	• May use cost, market, or income approach. • If use cost approach, should appreciate, then depreciate, using Marshall & Swift Valuation. • LTC says method must be defensible.	15%
Personal and Real Exempt Property	Self Reporting - Personal Property Tax Report - Tax Exemption Analysis Form (LAT 5-A)	When contracts expire	• Ensure that appropriate exemption amount is used by annually comparing exemption amounts reported on forms to DED contracts, affidavits of final cost, project completion reports, and/or summary records of this information. • Ensure that property with expired exemptions has been properly added to taxable property. • Ensure that exemption amount used is appropriate in comparison to the business's total reported property for the same time period. • Same methods that are used for personal taxable property.	• Same methods that are used for personal and real taxable property after exemption contract expires.	15%

Source: Prepared by legislative auditor's staff using information from state law, LTC regulations, IAAO standards, accounting and auditing standards, interviews with assessors, and evaluation of assessment practices in 12 sample parishes.

Another important part of the assessment process is ensuring that all taxable property has been identified. The process of identifying taxable property is generally referred to as discovery. State laws require that assessors use various documents such as building permits, maps, and sales information to discover commercial and industrial property in their jurisdiction.

Scope and Methodology

We conducted a limited examination of assessment practices for real and personal property of businesses that have been awarded Industrial Property Tax Exemptions (i.e., 10-year manufacturing exemptions).

Our procedures consisted of the following:

- Reviewing applicable Louisiana laws and regulations, International Association of Assessing Officers (IAAO) standards, accounting standards, assessment practices in 12 other southeastern states, and relevant information from other organizations.
- Administering a survey to all 70 Louisiana assessors consisting of one assessor in 63 parishes and an assessor from each of Orleans Parish's seven municipal districts.
- Selecting Ascension and East Baton Rouge parishes in which to conduct pilot work to become familiar with basic parish assessment practices.
- After completing pilot work, choosing ten additional parishes to include in our sample. We chose Bossier, Cameron, Evangeline, Lafayette, Morehouse, Natchitoches, Orleans 3rd Municipal District, St. Tammany, West Carroll, and West Feliciana Parishes. We chose the parishes based on six criteria and identified those parishes that fell most often in the upper, middle, and lower 10% of each criterion to ensure representational coverage of the state. The six criteria we used are geography, population, wealth, growth, industrialization, and assessment method.
- Examining current assessment practices to determine how real and personal industrial property subject to exemption is valued by interviewing the assessors, walking through assessment procedures with the assessors, and reviewing their records. We used this information to determine if the assessors are complying with the LTC's Rules and Regulations, the Louisiana Constitution, and applicable state laws.
- Choosing 28 businesses in the 12 sample parishes and reviewing and analyzing their LAT 5 and 5-A reports and related assessments. For each sample parish, we used DED's business incentives database to choose three businesses that have exemption contracts. Some parishes did not have three different businesses with exemption contracts, so we selected fewer businesses in those parishes. The total assessed value for the 28 businesses' personal property was $182 million and for their real property was $28.3 million. The businesses received $4.5 billion[1] in exemptions. To help ensure representational coverage of the industrial businesses in each parish, we chose one business with the most exemption contracts, one with a middle range of contracts, and one with a few contracts. We then judgmentally chose one of these sample businesses in each parish to

[1] This figure is the original cost of the property. It has not been reduced for depreciation and assessed value of 15%.

analyze in detail based on the type and amount of information the businesses reported and the risk that the businesses' exemption contracts were not accurately reported and assessed. For these sample businesses, we selected an expired contract and reviewed three years of LAT 5 and LAT 5-A reports as follows:

1. The reports for the year before the last year of the expired contract.
2. The reports for the last year of the expired contract.
3. The reports for the year after the contract expired to determine if the exemption was added to the assessment roll.

In addition, for each of these businesses' three reports, we examined how each business reported and how the assessor reviewed the businesses' other active exemption contracts. We also examined how the final assessments were determined.

- Conducting a limited examination of the discovery process to determine how real and personal property is discovered, identified, and located in 11 of the 12 sample parishes.[2] Our procedures consisted of reviewing applicable IAAO standards, interviewing assessors, and analyzing the discovery process.

The following sections provide a summary of the main issues identified during our audit. See Appendix B for a matrix of specific findings for each parish. Appendix C contains the Louisiana Tax Commission's response to this report. Appendix D contains the responses of six of the 12 sample assessors. Appendix E contains the Department of Economic Development's response to relevant sections of the report. Appendix F contains the Department of Revenue's response to sections of the report relating to industrial property tax audits.

[2] We were unable to obtain this information from one of the sample parishes.

Assessors' Interaction With DED

By law, the DED regulates the Industrial Property Tax Exemption Program. As such, it is imperative that DED provide local assessors with accurate information required to properly administer the program in their parishes. It is also important for DED to work with the assessors when the assessors identify inaccuracies in the information provided by DED. As described in this section, we found that assessors do not always question DED's determination of exemptions. In addition, DED does not always provide assessors with reliable information on which to base their assessments.

Assessors' Reliance on DED's Exemption Data Can Result in Insufficient Assessments

Almost half of the parish assessors we interviewed said that they rely solely on DED to provide critical information on exemption contracts. Specifically, the assessors rely on DED's determination of exemption periods as they relate to the actual acquisition of properties and the type of property that is exempted. If DED does not follow its regulations on these issues when it approves exemptions, assessors may exempt property for longer than the prescribed time period. In addition, it may result in assessors exempting non-manufacturing property. The lack of compliance with regulations could decrease the assessed value of businesses' property and decrease the amount of taxes parishes collect.

The state constitution provides that the Industrial Property Tax Exemption is for five years with a five-year renewal. DED's regulations say that the exemption shall be effective December 31 of the year in which effective operation began or construction was essentially complete, whichever is sooner. However, we found for one business that DED used the latter date as the effective date of the exemption for property totaling approximately \$6.0 million. As a result, property totaling about \$1.8 million of the \$6.0 million was exempted for 12 years, and the remaining \$4.2 million was exempted for 11 years. The assessor agreed that this error had occurred and said that DED had told him that it determined the effective date in this manner.

The constitution and related regulations also say that the exemption from property tax applies to new manufacturing establishments or to additions to existing manufacturing establishments. However, in one case we reviewed, DED had approved three exemptions for additions totaling \$225,945 even though the additions were not related to manufacturing. Two of the exemptions, which were approved in 1993, totaled \$86,354 and were for golf course remodeling and improvements to a golf course building located on a manufacturing establishment's property. Contract documentation shows that DED had conducted an inspection for one of these properties but did not disallow it. The other exemption of \$139,591, which was approved in 2001, was for a warehouse to store sweet potatoes, which was located several miles from the manufacturing business. The present assessor contacted the business and DED, which resulted in the application being amended and the potato warehouse being removed from the exemption. This example illustrates that if DED approves the exemption of unqualified property, the assessed value of that property will decrease if the local assessor does not question the exemption. However, as stated previously, most assessors honor DED's exemptions without question.

The LTC should:

1. **Work with the DED to revise DED's regulations to state that assessors have the authority to question and assess unqualified property that has been approved for exemption.**

Inaccurate Information Provided by DED During Exemption Period May Result in Incorrect Assessments

The information DED provides to assessors during exemption periods is not always accurate. DED sends copies of the exemption contracts, the project completion reports, the affidavits of final costs, and all correspondence to the local assessors. Each year, DED also sends each assessor a summary list printed from its database of all active and expired contracts so that the assessors can ensure that the businesses claim the proper exemption amounts on their self-reporting personal property tax forms. Assessors also use this information to determine which previously exempt property will become taxable in the coming year. Because assessors rely on these documents to track exemption contracts, it is vital that they contain accurate data. Without accurate and complete data, the assessors will not have the information they need to make appropriate assessments.

We found that data in DED's database of exemption contracts were often inaccurate and incomplete. For example, one company had the same exemption contract listed in two separate parishes. This error resulted in a loss of tax revenue of $2,288 for one of the parishes. In addition, DED's database did not always contain the contract amounts found on the affidavits of final cost, which contain the amounts used to assess property once exemption contracts expire. We also found that DED often coded exemption contracts to the wrong parish on its database and sent exemption documents to the wrong parish. Because assessors rely on DED information to monitor exemption contracts in their parishes, it is essential that these data are correct. If assessors receive inaccurate information from DED, they may incorrectly assess the property.

The LTC should work with the DED to:

1. **Implement controls that ensure that data sent by DED to local assessors are correct and work with assessors and DED to resolve discrepancies.**

2. **Develop a statewide database of exemption contracts that is accessible by all assessors.**

Oversight Issues

The LTC is required by law to regulate the uniformity of property assessments, which includes property subject to industrial property tax exemptions. However, we found that the LTC has provided little guidance to assessors regarding property tax administration as it relates to industrial property tax exemptions. This section describes our findings in this area.

LTC Has Not Provided Sufficient Oversight to Local Assessors

The LTC has not provided sufficient oversight or guidance to the local tax assessors. Specifically, the LTC has not issued consistent or written guidelines that standardize assessment procedures for property subject to the Industrial Property Tax Exemption. In addition, all of the assessors in our sample stated that they do not have any detailed written procedures relating to the industrial property tax exemption process. State law requires that the LTC adopt uniform guidelines for certain assessment practices. Uniform, written guidelines would help ensure that all tax assessors determine the fair market value of property equitably across the state. Because the LTC has not issued sufficient guidelines, there is no assurance that assessments are fair or consistent.

R.S. 47:1837(D) requires that the LTC issue, amend, and revise rules and regulations containing minimum standards of assessment and appraisal performance. R.S. 47:2323 further requires the LTC to adopt uniform guidelines for determining fair market value. According to the LTC, its regulations are the only guidelines that exist for assessors to use in the administration and valuation of property subject to industrial property tax exemptions. However, we found only two references to the exemption in the LTC regulations. One regulation defines the exemption, and the other prescribes a reporting form. These regulations do not provide sufficient guidance to ensure that the assessors uniformly and appropriately assess property subject to the exemption. LTC staff agreed that there is a need for increased oversight. They said that they are in the process of compiling a policies and procedures manual that will address various aspects of the assessment process discussed in this report.

The IAAO is an organization dedicated to developing standards, techniques, and procedures related to assessment practices. These standards state that effective assessment systems have standards of practice that promote uniformity through work procedures. We also found that many other southeastern states use the IAAO standards and have procedures that promote uniformity in assessment practices. Louisiana does not. Some of the primary IAAO practices and the states that have adopted them are as follows:

- All 12 other southeastern states that we reviewed have Web sites that provide varying degrees of information, including rules, procedures, forms, and instructions.

- Seven states (Arkansas, Florida, Georgia, North Carolina, South Carolina, Tennessee, and Texas) have detailed written procedures and guidelines, many of which are published on their Web sites.

- Tennessee has a statewide database that accounts for exemptions during the assessment process.
- State oversight agencies in five states (Arkansas, Florida, Mississippi, Tennessee, and Texas) conduct performance audits of assessors.
- South Carolina values industrial property at the state level.

In addition to having limited guidelines, the LTC does not use any of the other activities that other states use to promote uniformity. For example, the LTC does not have a Web site that could serve as a resource for assessors. According to an LTC official, a Web site is currently under development.

In addition, R.S. 47:1837(B)(1) requires that the LTC measure the level of assessments and degree of uniformity of those assessments for each major class and type of property in each parish. To fulfill the requirements of this statute, the LTC conducts ratio studies on certain properties to determine whether assessments are uniform. However, according to the LTC, it does not conduct ratio studies on commercial and industrial personal property. Therefore, the LTC has no method of ensuring that industrial personal property subject to exemption is monitored appropriately and assessed fairly.

Furthermore, the LTC does not have a comprehensive audit program for auditing local assessment practices. According to the LTC, it has two auditors who audit the personal property of businesses, but they do not audit assessors. Several southeastern states have state oversight agencies that conduct procedural or performance audits. For example, Georgia has an audit program that requires that all personal property accounts be audited at least once every three years. Texas has detailed performance audit procedures specified in the Texas Administrative Code. The revenue departments in Florida, Kentucky, and South Carolina include property tax audits within the scope of their responsibilities.

One of the reasons why the LTC's oversight has not been as effective as it could be may be because it is a state-appointed commission that oversees local elected assessors. In our review of other southeastern states, we found that several of them appoint their assessors. Appointing assessors may better promote the establishment of controls over and accountability of the assessors. (See Appendix A for details regarding assessors in other southeastern states.)

Because of the LTC's lack of oversight, local assessors have often developed their own unwritten practices related to assessment. We found that many of those practices have resulted in deficiencies and inconsistencies in assessment activities. Sixty-seven percent of the assessors in our sample indicated that they would like additional LTC guidelines relating to industrial property tax exemptions.

The LTC should:

1. **Develop standard policies and procedures for local assessors to use when assessing property subject to the industrial property tax exemption. The LTC should review policies and procedures in other states such as Arkansas, Florida, North Carolina, and Georgia, as well as IAAO standards, when developing policies and procedures. The policies and procedures**

should be designed to ensure that all assessors fairly and equitably assess property subject to industrial property tax exemptions.

2. **Conduct routine audits of assessors and their practices to help ensure that the policies and procedures are being followed and to encourage uniformity.**

3. **Determine if the Department of Revenue could take on an oversight role and/or assist by conducting personal property tax audits in conjunction with its sales and income tax audits of businesses.**

4. **Conduct ratio studies on commercial and industrial personal property to ensure that assessments are uniform.**

5. **Continue to develop a Web site that includes regulations, policies and procedures, and self-reporting property tax forms, as well as other relevant information that would assist local assessors and the general public.**

The legislature may wish to consider:

1. **Amending R.S. 47:1502 to require the Department of Revenue to include industrial property tax audits within the scope of its responsibilities.**

Assessors' Record-Keeping

Accurate record-keeping by local assessors is essential for proper administration of industrial property tax exemptions. Reliable records are necessary to ensure that the proper amount of exemptions is claimed and that exempted property becomes taxable when the exemptions expire. Relying on inaccurate and incomplete records could result in a decrease in the amount of local tax revenue collected from manufacturing businesses, which is used to fund local services such as education and law enforcement. As detailed in this section, we found that assessment rolls and other assessor records often did not contain dependable information related to industrial property tax exemptions. In addition, many assessors did not require businesses to provide complete information regarding their property values, as required by law.

Forty-Two Parishes Did Not Report Exempt Amounts on Tax Rolls

According to the LTC, assessors in 42 of the 64 parishes (66%) have not listed industrial property tax exempt amounts on the assessment rolls as required. Article 7, Section 21(F) of the 1974 Louisiana Constitution requires that exempted property be listed on the tax rolls, but that it not be taxed. The LTC said that it does not have sufficient resources to ensure that assessors comply with this requirement. As a result, the public and decision-makers do not have readily accessible information on the amount of exempt property that has been approved for manufacturing businesses in each parish.

Of the 12 assessors we sampled, we found that 10 (83.3%) did not list exempt amounts on the assessment rolls. In addition, most of the sample assessors did not include exempt contract amounts on their grand recapitulation reports. R.S. 47:1993 requires all assessors except for those in Orleans Parish to list all assessment tax rolls in the parish on a single tax roll, referred to as the grand recapitulation. This roll provides a summary of all taxable property in that parish. Nine assessors in our sample (75.0%) did not list the total amount of exemption contracts on the grand recapitulations.

According to the LTC, data on exempt industrial property was eliminated over time from the various computer programs used to generate the statewide tax roll. In addition, one assessor said that listing exempt amounts on tax rolls would not be cost-beneficial for parishes with few contracts because thousands of dollars in computer programming changes would be required to add this information. However, by not complying with the constitutional requirement and state law, assessors are not reporting all property subject to taxation. The LTC said that it plans to re-establish procedures to ensure that assessors include exempt property on the tax rolls.

The LTC should:

1. **Ensure that assessors comply with Article 7, Section 21(F) of the state constitution requiring that industrial property tax exempt amounts be listed on the tax rolls.**

2. **Ensure that the grand recapitulations summarize all information on the tax rolls, including the total industrial property tax exemptions granted in each parish.**

Assessors' Record-Keeping Practices Need Improvement

Assessors' record-keeping practices regarding industrial property tax exemption contracts should be improved. Some assessors' exemption records we examined were not properly maintained and periodically compared to DED information to identify differences. Instead, some assessors relied strictly on the businesses to properly report active and expired exemptions. Without accurately maintained records of exemption contracts that are independently verified, there is a high risk that expired exemption contracts will not be properly added to the tax rolls or will not be added at all, and that the wrong exemption amounts will be given to businesses. As a result, assessments could be inaccurate.

The sample assessors maintained, to varying degrees, files containing copies of the Industrial Property Tax Exemption documents that DED sent to them. These files included the exemption contracts, the project completion reports, the affidavits of final costs, and the renewal contracts. As previously stated, DED also sends each assessor a summary list of all active and expired contracts so that the assessors can ensure that businesses are claiming the proper exemption amounts and determine which previously exempt property will become taxable in the coming year.

In addition to the documents they received from DED, five assessors in our sample with significant numbers of exemption contracts also maintained their own summary records of exemption contracts. We found that three of these five assessors' summary records were not reliable because the assessors had not thoroughly checked their records against the DED information, especially the summary list of active and expired contracts. Two of these three assessors used their summary records as their assessment rolls. Thus, their assessment rolls were inaccurate. Other discrepancies between the assessors' records and the information provided by DED were caused by inaccuracies in the DED data. We found a general lack of communication between the assessors and DED officials to resolve these differences. In addition, for one of the three parishes with unreliable summary records, we could not determine whether expired exemptions had been added to the tax roll at the time the exemptions expired.

Another assessor did not maintain the DED exemption documents in good order. For instance, the envelopes from DED for some of the documents had not been opened. In addition, all of the documents pertaining to each exemption contract had not been matched and filed together. The assessor also did not realize that an expired contract should have been added to the tax roll and no longer claimed as an exemption. The tax amount for this exemption, after depreciation and assessed value is deducted, was $33,762.

The LTC should:

1. **Prescribe how assessors should maintain their exemption contract records.**

2. **Require that assessors periodically reconcile their DED contract files, DED list of contracts, and, if applicable, their own summary records to ensure that the records are accurate. The**

LTC should also require that, if discrepancies are found, the assessors work with DED to resolve the differences.

The assessors should:

3. Ensure that their files containing information received from DED and their summary records (if they maintain summary records) and assessments rolls are properly maintained, consistent, and accurate as to the periods and amounts of exemption. In addition, the assessors should work with DED to resolve discrepancies between information sent to them by DED and their own records.

Many Businesses Returned Their Property Tax Forms Late or Did Not Return Them at All

The businesses we reviewed often did not return their annual self-reporting property tax forms on time or did not return them at all. State law and LTC regulations provide deadlines for filing of these tax forms. State law also outlines penalties for businesses that fail to submit the forms, including monetary penalties and/or arbitrary assessment by the assessors. However, many assessors do not track the submittal of the forms or enforce monetary penalties. When businesses fail to file the tax forms, assessors can assess the applicable properties arbitrarily. If assessors arbitrarily assess property, there is no assurance that those assessments will be uniform or accurate. In addition, unreturned tax forms may result in lost revenue to the parishes.

R.S. 47:2324 and LTC regulations state that forms provided by assessors shall be returned by the first day of April or 45 days after receipt, whichever is later. We were unable to determine whether the LAT forms were received on time for 42% of the assessors in our sample. The primary reason we could not make this determination was because the assessors had no means of tracking the receipt of the tax forms. This lack of tracking may be because the LTC does not require the assessors to track the forms. One assessor told us that it would be impossible to track when businesses received the forms unless the forms were sent to the businesses by certified mail, which is cost-prohibitive. In another parish, the assessor did not know what a LAT 5-A form was, even though the parish had 23 exemption contracts. Therefore, this assessor had never sent or received any of the required tax forms to the businesses.

R.S. 47:2329 allows assessors to arbitrarily assess property if businesses fail to file the tax forms. In some of the sample parishes, the assessors estimated that up to 50% of the tax forms are not returned by businesses as required. According to some assessors, they contact the businesses that fail to file their tax forms. If the businesses still do not file the forms, the assessors arbitrarily assess the properties at some percentage above last year's assessment. These assessment increases range from 10% to 25%. Other assessors said that they make arbitrary assessments based on comparable data from similar businesses.

If the failure to file the tax forms is intentional, R.S. 47:2330 (A) allows the assessor to impose 10% of the tax due as a penalty. According to the LTC, assessors rarely assess this penalty. Also, according to one assessor, a 10% penalty is not sufficient to encourage businesses to comply. This assessor suggested a 25% penalty.

The LTC should:

1. **Adopt policies and procedures that require local assessors to track the submission of all self-reporting tax forms, including the dates the forms are sent and received. Having policies and procedures in this area would provide assessors with the necessary documentation to support arbitrary assessments and assess penalties. Enforcing penalties would help reinforce the importance of timely filing of the tax forms.**

2. **Consult with all tax assessors to determine whether it should pursue legislation to increase the current penalty provided in state law for businesses that intentionally fail to file tax forms.**

The legislature may wish to consider:

2. **Amending R.S. 47:2324 to specify that tax forms are due on a certain date regardless of when the businesses receive them.**

Self-Reporting Property Tax Forms Submitted by Businesses Often Contained Incomplete Information

Many businesses we reviewed did not submit required documents with their self-reporting property tax forms. In addition, some businesses submitted their own versions of the tax forms, which did not always contain vital required information. State law requires the LTC to either prepare blank tax forms or approve the tax forms that assessors use. The LTC standard forms include a statement requiring businesses to submit specific documents. Because businesses do not always submit all of these documents, assessors often do not have enough information to accurately assess all property subject to taxation.

According to the LTC, some parishes use the LTC standard forms and some develop their own LTC-approved forms. The LTC said that the forms are supposed to be uniform. However, we found that companies often submitted only supporting schedules attached to blank forms. Ten assessors in our sample allowed businesses to vary from the standard LAT 5 and LAT 5-A forms. The schedules they used instead of the LAT forms did not always contain all required information, which is vital to appropriate assessment. In five of these parishes, all of the businesses we reviewed submitted schedules in lieu of the tax forms. The schedules did not list each industrial property tax exemption contract separately, which made it difficult to ensure that the businesses did not exceed the authorized exemption amounts.

We found that even when businesses submitted LTC-approved forms, the forms often did not contain all required information. For example, none of the businesses we reviewed in nine parishes showed acquisition costs and exempt amounts for each contract as the LAT 5-A form prescribes. If businesses do not submit this information, it is difficult for the assessors to ensure that exemptions used were appropriate in comparison to the businesses' total reported property for the same time period.

We also found that none of the businesses we sampled in ten parishes submitted itemized fixed asset listings as required by LTC regulations. Most of the businesses submitted only a summary of fixed assets. As previously stated, the LAT 5 form contains a statement requiring businesses to submit an itemized schedule (i.e., fixed asset listing). The itemized fixed asset listing helps ensure that information submitted on the tax forms is accurate and complete. IAAO personal property standards recommend that tax forms submitted for the first year include a list of all property including the description, date acquired, and original cost of each item. Subsequent tax forms would then only include additions and deletions to the initial listing. According to the IAAO, this system promotes verification and valuation accuracy. According to the LTC, there is no penalty if businesses fail to submit itemized fixed asset listings. However, the LTC said that penalties would help ensure that businesses submit these listings.

Another problem is that the tax forms lack specific instructions to assist businesses in completing the forms correctly. The forms also do not contain a statement that says information provided on the form is subject to audit. IAAO personal property standards suggest that tax forms should contain sufficient instructions and a statement that all listings are subject to audit. In addition, some southeastern states include detailed instructions and a statement that information on the tax form is subject to audit on their tax forms. None of the tax forms used in the 12 sample parishes included an audit statement. Some assessors included a cover letter with the tax forms that contained general instructions. However, none of the assessors indicated that they provide businesses with additional detailed instructions for completing the tax forms. Clear, specific instructions should be provided on the form to help ensure consistent and accurate reporting.

In addition, nine of the assessors in our sample were not familiar with a statute that outlines another specific reporting requirement. R.S. 47:1953 requires businesses to file, by January 20 of each year, a sworn statement of the cost of their property, real and personal, and the value at which it is carried on the books. Businesses are also required to file a sworn statement of the earning capacity. Several assessors said that this provision is outdated and is superseded by the requirements for filing the forms by April 1 of each year (R.S. 47:2324 and R.S. 47:1956).

The LTC should:

1. **Evaluate state laws and regulations to ensure that they are in agreement and to determine whether they are necessary. For example, R.S. 47:1956 requires the LTC to prepare and distribute forms, while R.S. 47:2326 requires the LTC to approve and adopt forms used in property assessment. In addition, R.S. 47:1953 requires businesses to file a sworn statement of the acquisition cost and value of its property, as well as file a sworn statement of the business's earning capacity by January 20 of each year. However, R.S. 47:2324 and**

R.S. 47:1956 require most of this information by April 1 or 45 days after receipt, whichever is later. The LTC should work to get legislation introduced to clear up all discrepancies.

2. **Pursue further legislation and/or regulations requiring that businesses submit an itemized listing of fixed assets, preferably in an electronic format that is readable by the assessors' computers, with their annual self-reporting property tax forms. The legislation should include penalties such as disallowing the exemption for not complying with the requirement.**

3. **Ensure that self-reporting property tax forms include detailed instructions and a statement saying that the information reported on the forms is subject to audit.**

The assessors should:

4. **Require that businesses provide all information that is vital for a proper assessment on their tax forms. This information should include a detailed listing of acquisition costs and exempt amounts for each exemption contract, preferably on the itemized listing of fixed assets, and a summary of this information by acquisition year.**

The legislature may wish to consider:

3. **Enacting legislation that requires businesses to submit itemized fixed asset listing to local tax assessors with their tax forms each year.**

Assessors' Verification of Data Reported by Businesses

It is critical for assessors to verify data reported by businesses claiming industrial property tax exemptions, particularly the extent to which exemptions reduce the taxable value of property. Comprehensive and ongoing verification will ensure that businesses claim the proper amounts of exemptions during the 10-year exemption periods and that the appropriate amount of tax revenue is collected at the conclusion of the exemption periods. However, as discussed in this section, we found that assessors' verification procedures need to be strengthened. We identified at least $140,000 in tax revenues that assessors had not identified for collection because their data verification procedures were insufficient.

Little Verification Conducted to Ensure Accuracy of Personal Property Data Reported by Businesses

The sample assessors we reviewed conducted little verification of the information reported by businesses on the annual self-reporting personal property tax forms or other supporting documents to ensure that the data were accurate and complete. In addition, most parishes we reviewed did not conduct audits to verify that self-reported data were correct. State law allows assessors the authority to physically inspect and examine books and accounts in order to value property. However, the assessors rarely examined the books. In addition, most assessors characterized their physical inspections as a walk-through rather than an in-depth review. According to some assessors, they have insufficient resources and/or expertise to carry out this function, especially for large industrial businesses. Therefore, there is little assurance that exemption information reported by businesses and upon which assessments are based is accurate and consistent.

R.S. 47:1957 authorizes assessors to inspect and examine books and accounts to make an estimate of the value of property to be assessed. R.S. 47:2325 gives assessors the right to require additional data pertaining to the appraisal of the property or physical inspection. Some assessors said that they did not feel that they have the authority to inspect industrial property. However, according to our general counsel, physical inspections of property, whether real or personal, and the gathering of all data necessary to determine fair market value is the duty and responsibility of the assessors. Inspection and verification procedures would help assessors ensure that their assessments are accurate.

The IAAO standards recommend that assessors establish audit programs to verify that all personal property items have been reported and that the information reported is accurate. The standards also suggest that audits emphasize new accounts, major accounts, accounts with significant changes from the previous year, and accounts suspected of inaccuracies. Examples of verification activities that the IAAO suggests as part of an audit program include the following:

- Physical inspection to verify completeness
- Examination of a detailed fixed asset ledger or similar record

- Comparison of total reported costs to those shown in the general ledger or on the balance sheet to verify that all property has been reported

The LTC has provided little guidance that could help the assessors adequately verify data. The assessors have no standard, specific verification procedures that would help ensure that tax exemption information reported by businesses is accurate. There are no statutes, regulations, or policies that require or outline verification procedures. Because there are no standard procedures in place, we found significant differences in how assessors verified information reported by businesses on the tax forms. These differences include the documents the assessors use for verification. In addition, we found that some assessors used manual records and calculations instead of electronic spreadsheets, which resulted in calculation errors. Examples of some problems we identified are discussed below. All problems that we identified in our work in the 12 sample parishes are summarized in the matrix in Appendix B.

- Only six of the 12 sample assessors (50%) reconciled information on the self-reporting property tax forms to information in their files each year to ensure that the amounts the businesses showed as exemptions agreed with the amounts in their records. One assessor only compared this information when contracts expired and property became subject to taxation. As a result, this assessor failed to recognize that one business we reviewed incorrectly increased its exemption amount by $1.6 million, which equates to about $7,913 in taxes, during the contract period. Another assessor did not thoroughly compare this information. As a result, $2.5 million in unauthorized exemptions (or $39,573 in taxes) had been included on the business's tax forms since 1997. Businesses are not allowed to increase exemptions without entering into new contracts with DED. This error could have been detected if the assessor had compared the information on the tax forms to his records, especially the summary list he received from DED annually.

- Ten of the 12 sample assessors (83%) did not require businesses to submit documentation supporting reductions of exemption amounts for salvaged property. Reductions in exemption amounts result in less tax being assessed once property becomes taxable. Property that is deleted prior to contract expiration dates will never be assessed for property tax. Therefore, assessors should require that all deletions be supported by written documentation. In addition, assessors should ensure that exemptions are reduced when exempt property is salvaged during the exemption period. One assessor did not ensure that an exemption was reduced. This procedural weakness allowed the business to claim an exemption on property that should have been taxed.

- Four of the 12 sample assessors (33%) did not monitor when exemptions expired for the businesses we reviewed. Because the assessors did not know that certain contracts had expired, the parishes lost approximately $47,767 in tax revenue from these businesses.

- Five of the 12 sample assessors (42%) performed calculations manually. In one of the five parishes, the assessor's staff used a series of handwritten columnar sheets with the figures on it manually added together to keep track of industrial property tax exemptions. Also, as a result of clerical errors in the manual calculations, another assessor (8.3%) miscalculated the taxes owed by the businesses we reviewed. The errors would have increased the assessed value on the assessment rolls by $7,977, which would have resulted in additional taxes of $485 for the businesses. Requiring assessors to use electronic spreadsheets and other computer applications would help increase efficiency by saving time on calculations and verification. In addition, electronic calculations would help assessors decrease the risk of mathematical errors and would provide more timely and thorough review of tax forms.

- Four of the seven sample assessors (57%) who use computers for calculations did not keep the information that supports their assessments. Therefore, there is no link from the businesses' self-reporting property tax forms to the assessments on the tax rolls. Thus, we could not determine whether the assessments were correct in the cases we reviewed for these three parishes.

- We found that only five of the 12 sample assessors' property balances (41.6%) on the current tax forms appeared reasonable in comparison to previous years' tax forms. In three of these parishes, we found that businesses had reported incorrect information on their tax forms. If the assessors had thoroughly verified the information on the tax forms, they may have detected these errors. In one of these parishes, the assessor could have detected the error by comparing each year's acquisitions to prior year acquisitions to ensure that all taxable property was assessed. In another parish, a business used the wrong economic useful life to depreciate its assets, which resulted in less tax revenue for the parish. The assessor did not catch this error until an audit revealed it later. In the third parish, a business included incorrect acquisition years on its self-reporting forms, which resulted in a decrease in revenue collected by the parish. These three errors resulted in a total loss of tax revenue of $33,491.

- In one parish, the assessor did not compare current year assessments against prior year assessments. In this case, a computer error had occurred that resulted in $10,785 of tax revenue that should have been billed but was not. The assessor could have detected this error if policies and procedures that included comparisons of balances had been in place.

We found that some of the sample assessors did compare documents received from DED to the tax forms submitted by businesses to help verify that the data reported by the businesses were accurate. For example, one assessor compared the LAT 5-A forms to the business's fixed asset listings and found that a business had claimed an exemption for more property than it actually had. Another assessor compared information on the tax forms using software that provides a percentage change between the prior and current year's assessment. This comparison allowed the assessor to identify and evaluate significant changes. Another assessor input the businesses' depreciation schedules in its computer system. Each year the businesses submitted documentation of additions and deletions, which were also input into the system. This process allowed the assessor to properly account for all property, including exempted property. Seven parishes used a computer program to calculate fair market and assessed values.

We also found that 11 of the 12 sample assessors (91.6%) did not conduct audits, and two of the 11 did not conduct inspections to ensure that information reported by businesses was correct. Our research found that five other southeastern states (Alabama, Oklahoma, Tennessee, Georgia, and North Carolina) realize the importance of auditing commercial, industrial, and manufacturing property. Verifying information reported on tax forms by reviewing documents and conducting inspections and audits would help assessors detect errors, which could result in more tax revenue for parishes to help fund local services such as education and fire and police protection. Adequate verification also promotes fairness and equity in tax assessments. One assessor we reviewed did conduct an audit of a business in conjunction with the LTC after the business did not return its tax form. According to the assessor, the audit resulted in a tax increase for fiscal years 2000 and 2001 of $272,054.

Insufficient verification can result in costly mistakes going undetected by assessors. For example, we found one case where a business reported a mistake that the assessor did not catch. The mistake would have resulted in the business being exempt from property tax for 11 years instead of the maximum of 10 years permitted. Therefore, it is imperative that assessors have written and consistent policies and procedures related to data verification. Otherwise, there is little assurance that assessments will be fair and accurate.

The LTC should:

1. **Adopt policies and procedures that outline how assessors should verify information reported by businesses on self-reporting property tax forms and how they should audit and/or inspect businesses. The policies and procedures should include requirements that:**

    - **Assessors verify exempt amounts throughout entire contract periods by comparing the information on the self-reporting property tax forms to certain documents, such as the itemized fixed asset listings.**

    - **Assessors compare information on the LAT 5-A forms to the DED-approved exemption amounts on the affidavits of final cost and other independently maintained records.**

    - **Businesses submit written documentation of all deletions (i.e., salvaging) of exempted property. This documentation would help the assessors verify that deletions are appropriate, as well as appropriately reduce related exemption amounts.**

    - **Assessors develop an audit function to audit businesses, especially large businesses that receive industrial property tax exemptions, for the purpose of verifying the accuracy of tax information reported by the businesses to the assessors. The LTC should evaluate the costs associated with this function and determine whether it would be more cost effective to conduct the audits with existing staff or contract for the audit function.**

    - **Assessors monitor all exemption contracts to ensure that property is taxed after the contracts expire.**

- **Assessors use electronic means for calculations and other analyses, such as comparing each acquisition year's balances on current tax forms to balances reported on previous years' tax forms.**

- **Assessors investigate significant variances between property balances and assessments reported on tax forms from one year to the next.**

2. **Work with the DED to require businesses to relate assets on itemized fixed asset listings to assets included in exemption contracts.**

The assessors should:

3. **Start immediately to conduct adequate verification procedures of the information included on the self-reporting property tax forms, including the procedures listed in No. 1 on the previous page.**

Assessors' Valuation of Property

Regardless of a business's size, state law requires that property tax assessment be applied uniformly throughout the state. Thus, businesses that enjoy industrial property tax exemptions should be assessed in the same manner as all other Louisiana businesses. However, as described in this section, we found that a quarter of the assessors we reviewed did not value real industrial property as prescribed by LTC regulations, which were created to promote uniformity. In addition, the definition of fair market value in state law is not consistent with the definition used by the IAAO and may need to be updated.

Real Property Subject to Industrial Property Tax Exemption Valued Inconsistently

The sample assessors we reviewed did not value real property subject to the industrial property exemption consistently across the state. In addition, they did not sufficiently document the methods they used to value this property. LTC regulations require that assessors use certain procedures for valuing real property. Despite this requirement, LTC officials said that the valuations are often subjective and that the most important requirement is that the valuations be defensible. However, without consistent methods and documentation of how the properties were valued, the valuations cannot be easily defended.

R.S. 47:2323 requires that the LTC develop uniform procedures for determining fair market value for all property. Fair market value is defined in R.S. 47:2321 as the estimated highest price for property. R.S. 47:2323 also requires that the fair market value of real property be determined using either the market, cost, or income approach. If assessors use the cost approach, the law requires that they first estimate the replacement value of the property (i.e., usually appreciate it) before depreciating it. Once a business's property is appreciated and then depreciated, the assessors should value it at 15% of fair market value.

According to the LTC, the cost approach is the most common approach for valuing real industrial property. Section 303 (A) of the LTC regulations requires that assessors use the Marshall & Swift Valuation tables for determining replacement cost. An LTC official said that the appraisal of real property is very subjective, reflecting only an opinion and nothing more. According to this official, the assessors' ability to defend their valuations is the key. The LTC defines defensible as having used a reasonable method that is documented in writing.

We found that over half of the 12 assessors we reviewed did not fully document their valuation of real property. One assessor made adjustments of $3.3 million to decrease the assessed value of real property for economic obsolescence. The adjustments decreased taxes by approximately $203,747. However, the assessor did not follow LTC's guidelines for making the adjustments and did not document the reasons for the adjustments. He said that he did not document why and how the adjustments were made because no one ever checked his work and he wanted to follow a more simplistic approach than the one the LTC requires.

The only way that the LTC reviews real property assessments is through ratio studies. However, a recent performance audit of the LTC found several problems with these ratio studies. An LTC official agreed that these studies need improvement.

We also found that the 12 assessors in our sample did not uniformly value real property subject to the industrial property tax exemption. Some assessors appreciated the property and then depreciated it before determining the assessed value based on cost, as stated in the LTC regulations. Others did not appreciate the property first, and some based the value strictly on the local market. Exhibit 3 summarizes the different methods of valuation that we identified.

Exhibit 3
Summary of Valuation Methods Used to Value Real Property in 12 Sample Parishes

Assessment Method	Number of Assessors Using This Method
Appreciation Then Depreciation Then Assessment	
• Use Marshall & Swift Valuation tables to appreciate the cost, then depreciate that cost by a certain percentage, then assess	5
• Use market factors	3
Depreciation Then Assessment	
• Use LTC cost multiplier tables to depreciate the cost before assessment (identical to the assessment of personal property)	2
• Use a fixed percentage of the property's value in order to depreciate the cost before assessment	1
Other	
• Apply assessment value percentage (15%) to original cost less exemption amount	1
Source: Created by legislative auditor's staff using data gathered from 12 sample parishes.	

As the exhibit shows, assessors in five of the 12 sample parishes (41.7%) complied with the LTC regulation requiring assessors to appreciate real property prior to depreciating and assessing it, if cost is the basis. Three other assessors (25%) complied with the LTC regulation by using the market approach to valuation. Two assessors (16.6%) treated businesses' real property identically to their personal property by depreciating it using a percentage prior to assessing it, which is not in compliance with LTC regulations. According to one of these assessors, a building would not have any value if it had no personal property. Therefore, he valued buildings as he would personal property. The other assessor said that he believes that personal property tables apply to real property. However, the LTC told us the tables do not apply to real property. Valuing businesses' real property as personal property results in a decrease in potential tax revenue for parishes, which could be used to provide important local services. The final two assessors used other means to value real property. Exhibit 4 gives a hypothetical example using property valued at $7 million. As the exhibit shows, if an assessor does not appreciate property prior to depreciating it, the parish loses tax revenue.

Exhibit 4
Hypothetical Comparison of Two Assessment Methods

	Method Required by Regulations	Method Used by Some Assessors
Acquisition cost of a building (real property)	**$7,000,000.00**	**$7,000,000.00**
Marshall & Swift cost index factor	**50% (150% of acquisition cost)**	**---**
Replacement cost *(Acquisition cost) X (Marshall & Swift cost index factor)*	**$10,500,000.00**	**$7,000,000.00**
Depreciation	**20%**	**20%**
Taxable amount *(Replacement cost) X (Depreciation)*	**$2,100,000.00**	**$1,400,000.00**
Assessment percentage	**15%**	**15%**
Value recorded on assessment roll *(Taxable amount) X (Assessment percentage)*	**$315,000.00**	**$210,000.00**
Difference between two methods	**$105,000.00**	

Source: Hypothetical example created by legislative auditor's staff.

The IAAO standards recommend a very technical approach to the valuation of industrial property. Louisiana's more simplified approach may not consider all factors that should be taken into consideration. The application of the suggested approaches would require a high level of experience with these techniques. With this in mind, it is possible that the overall value of Louisiana industrial property could be understated.

One assessor told us that he hired a private appraisal firm to appraise oil and gas property in his parish. The appraisals resulted in additional revenue for the parish. However, the assessor said he did not believe it would be cost effective to hire appraisers for the few businesses with industrial property tax exemptions in his parish. Another assessor told us that he thinks the state should allocate 2 mills for one year to go toward hiring an appraisal firm to appraise the entire state. He said that doing so would bring the assessed value of property to the correct level. From there, the assessors would be able to maintain the assessed value of the property. Two of the southeastern states we reviewed (Mississippi and Georgia) encourage contracted-out appraisals.

The LTC should:

1. **Adopt policies and procedures that require assessors to:**

    - **Value real commercial/industrial property uniformly and correctly through the use of the Marshall & Swift Valuation tables, if cost is the basis for valuation.**

    - **Document all valuations in enough detail to be defensible if challenged.**

2. **Conduct a cost-benefit analysis to determine if the cost of hiring professional contract appraisers who would use complex IAAO valuation standards would benefit Louisiana by increasing the revenues collected.**

Definition of Fair Market Value Should Be Changed

R.S. 47:2321 defines fair market value as the estimated highest price for property. However, IAAO literature defines fair market value as the most probable price. The IAAO specifically says that fair market value should not be defined using the highest, lowest, or average price. Using the most probable price would allow the assessors the maximum flexibility to determine accurate fair market value by consulting as many sources as required.

Because Louisiana assessors do not use the IAAO definition of fair market value, the values recorded on the parish and state tax rolls may not be accurate. The LTC and several assessors agreed that the IAAO definition is better than the one in R.S. 47:2321.

In addition, one assessor said that the current minimum allowable cost multipliers used to depreciate personal property do not contribute to the determination of a realistic fair market value. For example, computer equipment can be depreciated to 21% to 22% of its acquisition cost within five years. However, this assessor stated that because of the nature of technology, computer equipment is not worth that percentage of its acquisition cost when it is five years old. The assessor said that Marshall & Swift's corresponding percentage is much lower (10%).

The LTC should:

1. **Pursue legislation to amend R.S. 47:2321 to change the definition of fair market value from "highest price estimated" to "most probable price" as recommended by IAAO standards.**

2. **Consider revising the cost multipliers for computer equipment and other property with similar life cycles to promote the calculation of actual fair market value.**

The legislature may wish to consider:

4. **Enacting legislation to amend R.S. 47:2321 to change the definition of fair market value from "highest price estimated" to "most probable price" as recommended by IAAO standards.**

Discovery of Property

Having procedures to discover all new taxable property in each parish will increase tax revenues that can be realized by the parishes. This, in turn, could enhance existing local services that are provided in the parishes. However, the LTC has not adopted comprehensive policies relating to the discovery of businesses' property and does not actively oversee assessors' discovery efforts. As a result, we found that assessors' discovery procedures vary significantly in scope.

Assessors Use Various Discovery Procedures

We interviewed the 12 sample assessors and found that most of them lack written policies and procedures that would help ensure that all taxable property is identified. Several statutes require assessors to incorporate discovery procedures in their assessment practices. In addition, IAAO standards suggest various sources to help assessors discover new commercial property. However, most assessors' current practices are not written and vary among parishes. Discovery of commercial property is important because only known property can be taxed. If assessors do not have written discovery methods, they may fail to tax all taxable property.

As previously explained, discovery refers to ensuring that all taxable property in each parish is identified. State laws require that assessors obtain and maintain certain documents to help them discover taxable property. Specifically,

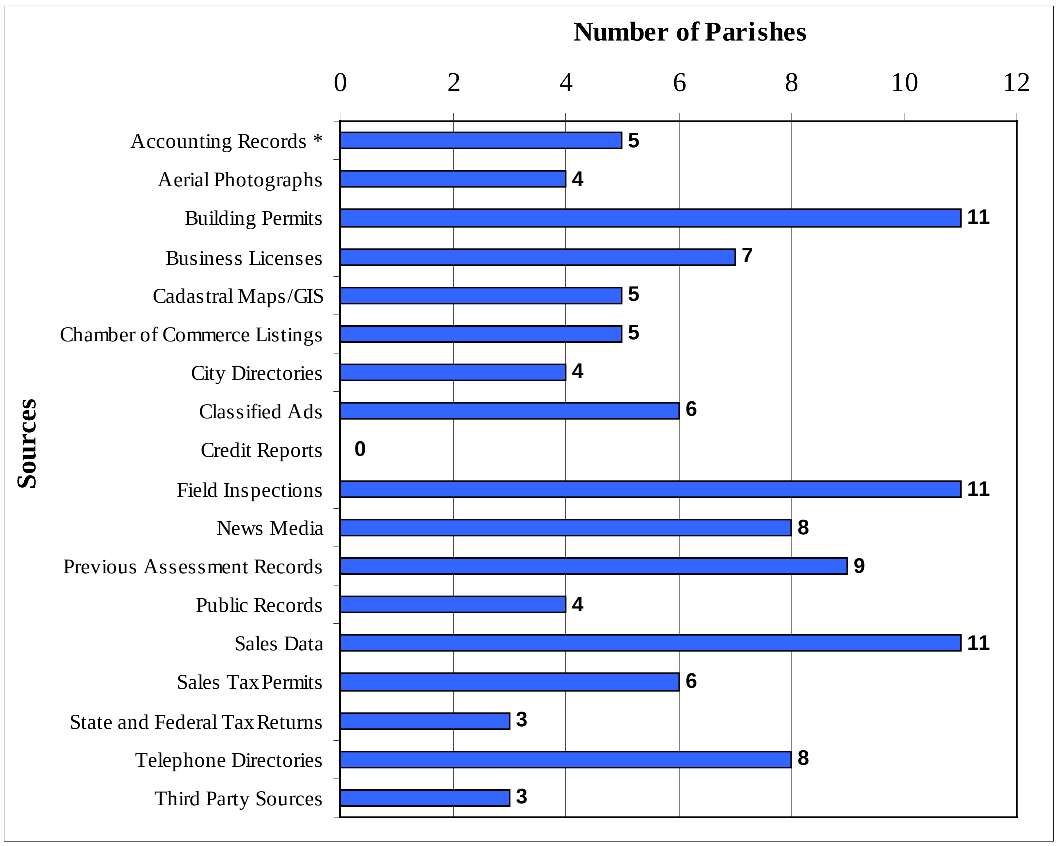
- R.S. 47:2328 requires that parish and municipal governing authorities with building codes provide assessors with building permits.
- R.S. 47:1964 requires assessors to examine records in the office of the recorder of mortgages to identify taxable property.
- R.S. 47:1959 requires that:
    - Persons buying or selling real estate requiring an act of sale furnish the local assessor with a map of the property.
    - The Office of State Lands furnish assessors with a list of all lands that have been entered or sold in the prior year.
    - Assessors maintain maps showing each parcel of land and the name of the owner.

In addition, R.S. 47:1966 (B) authorizes the LTC to inspect parish assessment rolls to search for taxable property not on the rolls. According to most assessors in the 12 parishes we sampled, the LTC has never done any type of inspection. The LTC said that it does not have enough resources to inspect the parish assessment rolls. The LTC has found properties excluded from the tax roll during routine ratio studies.

The LTC also has not provided guidance to the assessors on discovery procedures. Accordingly, each assessor has developed his or her own practices. In our research of other southeastern states, we found four states (Florida, Georgia, North Carolina, and Tennessee) that include discovery procedures in published manuals or rules and regulations.

IAAO standards suggest several sources that may be useful for discovery of real and personal property. For real property, the IAAO says that the major tool assessors should use is cadastral maps that plot every parcel of land in a parish. For personal property, the IAAO suggests a variety of sources including aerial photographs, field inspections, and telephone directories. Exhibit 5 shows the prevalence of the different methods used to discover businesses' property in 11 of the 12 sample parishes. One parish assessor did not provide this information to us.

Exhibit 5
Sources Sample Parishes Use to Discover Commercial/Industrial Property



*Includes itemized fixed asset listings. Several assessors said that reviewing fixed asset listings is the only way to detect additions to personal property.
Source: Prepared by legislative auditor's staff using information from 11 of the 12 sample parishes.

As the exhibit indicates, the assessors use a variety of sources to discover businesses' property. The number of sources available may depend on the size and other demographic characteristics of each specific parish. For example, assessors in small rural parishes drive around to discover new property. The use of few discovery procedures in rural parishes should not necessarily be considered a weakness.

Most of the assessors said that they rely mainly on building permits. However, at least three assessors said that they were not sure if local ordinances require building permits for additions to major industrial concerns. These assessors said that they find out about additions to businesses when the businesses apply for the industrial property tax exemption.

Most of the assessors in our sample were not familiar with a statute requiring assessors to obtain a list of lands from the State Land Office. R.S 47:1959 requires, in part, that the Register of the State Land Office furnish annually to the assessor of each parish a list of all lands that may have been transferred or sold during the preceding year, along with the names of the persons receiving or purchasing the lands. This law could help assessors identify taxable property.

Although most assessors use a variety of sources to discover business property, most did not have written policies and procedures documenting their practices. Policies and procedures outlining discovery techniques would help ensure that assessors detect all potential taxable property in their parishes.

The LTC should:

1. **Adopt policies and procedures related to discovery of business property, provide training to the assessors on these policies and procedures, and ensure that the assessors use the policies and procedures.**

2. **Periodically review parish assessment rolls to ensure that all taxable property is included. This process should be a part of a larger statewide audit program, which could potentially increase local revenue.**

3. **Evaluate R.S. 47:1959 to determine whether the information that the State Land Office is required to provide is useful to assessors in the discovery process. If it is useful, the LTC should require assessors to use the information in their discovery practices. If the information is not relevant, the LTC should pursue legislation to revoke the law.**

Suggestions for Improvement

In our statewide survey, we asked parish assessors to describe changes and improvements that they felt would benefit the industrial property tax exemption program and related assessment procedures. We received a variety of responses. Those responses are as follows:

- The state should grant exemptions for a shorter period of time.
- The program should not exempt 100% of applicable property from taxation.
- The program should not exempt short-life items (i.e., items with a life less than 10 years, such as computers) from taxation.
- The State Board of Commerce and Industry should obtain local assessors' input before approving exemptions.
- Businesses should not receive full exemptions for replacement parts and maintenance.
- The LTC should establish and better enforce guidelines and rules.
- The LTC should develop a policies and procedures manual.
- Businesses and DED should provide detailed itemized fixed asset listings to the assessors and they should agree with each other.
- DED should notify assessors of its inspections and invite the assessors to attend.
- Businesses should provide information on retirements or disposals of exempt property on their tax forms.

Appendix A

Summary of Selection Methods and Term Lengths for Assessors in Southeastern States

Appendix A

Selection Methods and Term Lengths for Assessors		
State	**Method of Selection**	**Term Length**
Alabama	Elected	6 years
Arkansas	Elected	2 years
Florida	Elected	4 years
Georgia	Appointed	6 years
Kentucky	Elected	4 years
Louisiana	**Elected**	**4 years**
Mississippi	Elected	4 years
North Carolina	Appointed	2 years (1st term); 2 or 4 years (2nd term)
Oklahoma	Elected	4 years
South Carolina	Appointed	Indefinite
Tennessee	Elected	4 years
Texas	Elected	4 years
Virginia	Elected, appointed, and contracted	4 years

Source: Prepared by legislative auditor's staff using information obtained form IAAO.

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Appendix B

Matrix of Findings for Sample Parishes

APPENDIX B
Matrix of Findings for Sample Parishes

CRITERIA	Ascension	Bossier	Cameron	East Baton Rouge	Evangeline	Lafayette	Morehouse	Natchitoches	Orleans #3	St. Tammany	W. Carroll	W. Feliciana	Totals
INTERACTION WITH DED													
1. Upon receipt of exemption applications from DED, assessor verified accuracy of dates of construction/beginning of operations.	No Response	Yes	Yes	No	No	No	Yes	No	Yes	No	Yes	Yes	6 -Yes 5 - No 1 - No Response
2. Assessor ensured that DED's determination of manufacturing status was correct.	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	No	7 - Yes 5 - No
RECORD-KEEPING													
3. Assessor exemption records were accurately maintained.	Yes	No	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes	8 - Yes 4 - No
4. Assessor had detailed written policies and procedures related to assessment.	No	No	No	No	No	No	No	No	No	No	No	No	12 - No
5. Assessor received all report forms from businesses timely.	No	No	Cannot Determine	Cannot Determine	Cannot Determine	Cannot Determine	Cannot Determine	Cannot Determine	No	No	No	No	6 - No 6 - Cannot Determine
6. Assessor listed exempt property on tax rolls as constitution requires.	No	Yes	No	No	No	No	No	No	Yes	No	No	No	2 - Yes 10 - No
7. Assessor listed exempt property on grand recapitulation as law requires.	No	No	No	Yes	No	Yes	Yes	No	N/A	No	No	No	3 -Yes 8 - No 1 - N/A

APPENDIX B
Matrix of Findings for Sample Parishes
(Continued)

CRITERIA	Ascension	Bossier	Cameron	East Baton Rouge	Evangeline	Lafayette	Morehouse	Natchitoches	Orleans #3	St. Tammany	W. Carroll	W. Feliciana	Totals
DATA VERIFICATION													
8. Contract numbers were listed separately on all forms/spreadsheets, as LAT 5-A form requires.	No	No	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	7 - Yes 5 - No
9. Acquisition costs and exempt amounts were included for every contract as LAT 5-A form requires.	No	No	Yes	No	No	Yes	No	Yes	No	No	No	No	3 - Yes 9 - No
10. Assessor included depreciation information for fair market value determination with each LAT 5 or LAT 5-A form.	No	No	Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes	6 - Yes 6 - No
11. Assessor ensured that all expired exemptions were properly added to taxable property.	Yes	No	Yes	Cannot Determine	No	Yes	No	Yes	Cannot Determine	Yes	Yes	No	6 - Yes 4 - No 2 - Cannot Determine
12. Assessor included specific instructions for businesses with LAT 5 and LAT 5-A forms.	No	No	No	No	No	No	No	No	No	No	No	No	12 - No
13. Sample businesses submitted itemized fixed asset listings with all tax forms as required by LTC regulations.	No	Yes	No	No	No	Yes	No	No	No	No	No	No	2 - Yes 10 - No

APPENDIX B
Matrix of Findings for Sample Parishes
(Continued)

CRITERIA	Ascension	Bossier	Cameron	East Baton Rouge	Evangeline	Lafayette	Morehouse	Natchitoches	Orleans #3	St. Tammany	W. Carroll	W. Feliciana	Totals
14. Assessor ensured that changes in property balances on all current tax forms appeared reasonable in comparison to previous year's tax forms.	No	Cannot Determine	Yes	No	No	Yes	Yes	Yes	Cannot Determine	Yes	No	No	5 - Yes 5 -No 2 - Cannot Determine
15. Assessor conducted physical inspections or walk-throughs of businesses with exemptions.	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	10 - Yes 2 - No
16. Assessor audited businesses with exemptions.	No	Yes	No	No	No	No	No	No	No	No	No	No	1 - Yes 11 - No
17. Assessor ensured that all businesses used authorized exemption amounts for proper time periods.	No	Cannot Determine	Yes	No	No	No	Yes	Yes	Yes	Cannot Determine	Yes	Yes	6 - Yes 4 - No 2 - Cannot Determine
18. Assessor used electronic means to verify calculations.	No	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes	No	Yes	7 - Yes 5 - No
19. If calculations were verified electronically, assessor maintained documentation to support assessments.	N/A	No	N/A	N/A	N/A	No	Yes	No	Yes	Yes	N/A	No	3 - Yes 4 - No 5 -N/A

APPENDIX B
Matrix of Findings for Sample Parishes
(Concluded)

CRITERIA	Ascension	Bossier	Cameron	East Baton Rouge	Evangeline	Lafayette	Morehouse	Natchitoches	Orleans #3	St. Tammany	W. Carroll	W. Feliciana	Totals
20. Assessor received documentation from all businesses supporting salvaged (deleted) property.	No	No	N/A	No	No	No	No	No	No	Yes	No	No	1 - Yes 10 - No 1 - N/A
21. Assessor ensured that exemption amounts claimed by businesses on their tax forms were appropriate in comparison to their total reported property for the same time period.	No	Yes	Yes	Cannot Determine	Yes	Yes	Yes	Yes	Cannot Determine	Cannot Determine	Yes	Cannot Determine	7 - Yes 1 - No 4 - Cannot Determine
VALUATION													
22. Property was correctly assessed using 15% of fair market value for all sample businesses.	Yes	Cannot Determine	Yes	Yes	Yes	Cannot Determine	Yes	Cannot Determine	Yes	Yes	Yes	Yes	9 - Yes 3 - Cannot Determine
23. Real property was assessed in conformity with LTC regulations.	Yes	Yes	No	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes	8 - Yes 4 - No
24. Assessor maintained documentation supporting assessments for all real property (i.e., assessments were defensible).	Yes	No	Yes	Yes	No	No	No	No	Yes	Yes	No	No	5 - Yes 7 - No

Cannot Determine: Could not obtain sufficient information.
N/A: Not applicable.
Source: Prepared by legislative auditor's staff using information gathered from sample parishes.

Appendix C

Louisiana Tax Commission’s Response

Louisiana Tax Commission

M. J. "MIKE" FOSTER, JR.
Governor

RUSSELL R. GASPARD
Chairman

BATON ROUGE OFFICE
P.O. BOX 66788
BATON ROUGE, LA 70896

April 10, 2003

Mr.Grover C. Austin, First Assistant Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: ASSESSMENT PRACTICES RELATED TO BUSINESSES' INDUSTRIAL PROPERTY TAX EXEMPTIONS AUDIT FINDINGS – LTC RESPONSE

Dear Mr. Austin

Pursuant to the March 28, 2003, letter from Assistant Legislative Auditor and Director of Performance Audits, Mr. David K. Greer, concerning the above captioned audit findings, I am responding on behalf of the Louisiana Tax Commission.

The LTC acknowledges serious problems existing with the Industrial Exemption process, including the assessment listing practices and lack of auditing procedures for the compliance of the industries' reporting practices to the statewide assessors to which we supervise and provide assistance in ad valorem taxation matters.

However, we most assuredly opine that the problems originate at the Department of Economic Development (DED), Commerce and Industry, level for their numerous inaccuracies being reported to the assessors as was consistently identified in your preliminary audit findings as well as your office's prior Performance Audit Report – Audit Control #01901680, issued in May, 2002.

Per your current audit findings, there presently exist "approximately" 5,663 exemption contracts, amounting to $30,389,921,941, as of December 31, 2001. If your office's auditors had difficulty in determining the actual number and amount of industrial exemptions currently in place, during their in-depth audit of the DED program records related to twelve (12) parishes, and receiving some data from all statewide assessors, how can the LTC audit the reporting accuracy given to and recorded by the assessors with only two (2) auditor positions and lack of budget to hire additional specialized auditors? These industry exemption-manufacturing businesses require specialized auditors, who have expertise in numerous industrial levels of personal properties. How can the assessors or an LTC auditor identify and audit speciality equipment such as refineries and other businesses have, when we have no idea what we would be viewing in an actual physical inspection? It seems that a lot of the blame is being improperly placed upon the shoulders of the assessors and the LTC for not having correct data on the assessment rolls, when DED is providing erroneous data to the assessors. No manufacturing exemption applications or contracts records are provided to the LTC. It doesn't take a rocket scientist to realize that in accounting and auditing problems you customarily start with where the source of the originating problems are and proceed from there.

Assessors and the LTC do not provide exemptions to the industrial manufacturing businesses; and, in fact neither have not been welcomed nor invited to offer their input into the exemption applications or contract approvals. Assessors are responsible for listing the DED contracted exemptions on a supplemental exemption listing and ensuring that the taxpayers' property renditions meet the exemption requirements demanded by law and match that data provided to them by the DED. The LTC has prior addressed the inaccurate and erroneous submission of data to the assessors by the DED and admitted some assessors' failure to properly place these contracts on their exemption rolls. However, there exists a problem that compounds this situation and that is the manufacturing businesses' proper LAT 4, 5, and 5-A filing forms and Fixed Asset Listings that they're required to annually report to the assessors. Many of these businesses and industries do not use the said proper LAT filing forms, devising their own forms with some required data not even being reported, such as your auditors found and reported in your preliminary audit report. This is because of a lack of sufficient penalties for non-reporting or falsifying their reporting documents. The only penalty now afforded to the assessors is found in R.S. 47:2330 (A); which allows the assessors to impose a ten (10%) percent penalty of the amount of taxes actually owed -- if a taxpayer "intentionally fails to file a report." How, can the assessors logically impose this penalty, when the DED and the industrial or business manufacturing companies are not reporting accurately themselves? These taxpayers that are not reporting are assuredly not worried about a little ten (10%) percent penalty. And if the assessor had to file a formal appeal with the LTC, the penalties would be nothing compared to the assessors' legal fees to represent their offices before the LTC and continuing into the court systems.

Without "meaningful and enforceable" penalties for non-reporting and erroneous reporting by the taxpayers, there is absolutely NO WAY for the assessors to enforce taxpayers to properly render their various properties for ad valorem tax purposes. This is simply an impossible situation! The legislative branches of government would have to accomplish this, and there has been some legislative reluctance to make these provisions.

Assessors have complained to your auditors, as well as to the LTC, concerning their lack of input into the application and contract awarding procedures. Nor are the taxing entities allowed to provide input. It would seem that DED would welcome and encourage the assessors' participation, since assessors have first hand knowledge as to their parishes' ad valorem millage tax base requirements to sustain each taxing entity's individual operating budget.

Additionally, it appears that some businesses are continuing to obtain exemption contracts when they are not bona fide manufacturers. Some businesses continue to obtain contracts for capital additions, not provided for in the industrial exemption laws. And some personal properties currently being exempted may not even have a five (5) year economic life, much less the full ten (10) year allowable exemption period (i.e., computers). These properties are therefore obsolete by the time they are eligible to roll off the exempted rolls. Many other exemption contracts are affected by depreciation and obsolescence factors by the time they roll off the exempted rolls in ten (10) years and their values for taxation purposes are greatly diminished, thus resulting in little added tax revenues for the local governments, although they have provided local and/or parish services to the manufacturing businesses during this same exemption period.

The LTC has already sought auditor assistance from the Legislative Auditors themselves, the Inspector General's Office, the Department of Revenue and Taxation, and from DED themselves in order to assist the assessors in this monumental assessment field. We have had no auditor help results.

The LTC is also more than willing to devise and adopt more efficient reporting forms for the taxpayers to submit data properly to the assessors; however, we feel legislative enacted penalties would better benefit the assessors as identified above.

Additionally, the LTC is currently in its final preparation of initiating a website to assist the assessors in reporting their change orders and retrieving necessary ad valorem filing forms. Ideally, our agency would be willing to receive reliable exemption contract data from DED and place it on our website for the assessors. Perhaps a member of our staff could then be assigned to monitor these exemption contracts and flag the contract termination dates to confirm with the assessors at that time.

Perhaps proposed legislation could include:

Loss of exemption status if a taxpayer fails to report properly to the assessors.
Limit exemptions to a one-time application allowance.
Consideration of In-Lieu-Of taxes for tax-education or other purposes instead of full exemption allowances.
Strict monitoring of the exemptions as they relate to actual state cost/benefits derived, including (but not limited) to the additional jobs created in the labor market.
Provide for full payment of exempted taxes and/or penalties if the taxpayer's business closes prior to the end of the ten (10) year exemption period.
Consider exemptions for only five (5) years or less.

The Louisiana Tax Commission is currently considering these audit findings for its upcoming 2003 Rules and Regulations Hearings. It is also open to suggestions by the Legislative Auditors and the Assessors themselves.

Respectfully submitted, on behalf of the Louisiana Tax Commission,

Russell R. Gaspard
Chairman

RRG/al

Cc: Member Jewette H. Farley
Member Kenneth P. Naquin, Jr.
Ann R. Laurence, Confidential Assistant

Appendix D

Assessors' Responses

Note: Assessors from the following parishes chose not to respond to the audit:

- Ascension Parish
- Cameron Parish
- Evangeline Parish
- Morehouse Parish
- Nachitoches Parish
- West Carroll Parish

Bossier Parish

BOBBY W. EDMISTON
PARISH OF BOSSIER
UNION, JUSTICE & CONFIDENCE
LOUISIANA
ASSESSOR

April 4, 2003

Mr. Grover C. Austin, First Assistance
Office of Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

I acknowledge receipt of your limited examination of assessment practices for businesses claiming industrial property tax exemptions.

I appreciate the opportunity to improve the performance of my office based on your findings and recommendations.

At this time, I have no further comments on your report.

Sincerely,

Bobby W. Edmiston
Bossier Parish Assessor

204 Burt Blvd. • P.O. Box 325 • Benton, Louisiana 71006-0325
Telephone (318) 965-2213 • Fax (318) 965-0274 • Email bpa@softdisk.com

East Baton Rouge Parish

Brian Wilson
ASSESSOR

April 11, 2003

Mr. Grover C. Austin
First Assistant Legislative Auditor
OFFICE OF LEGISLATIVE AUDITOR
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Limited Examination of Assessment Practices for Businesses Claiming Industrial Property Tax Exemption

Dear Mr. Austin:

Please allow the following to serve as my formal response to your office's limited examination of the referenced item.

As to the record keeping practice maintained by this office, we utilize a specific database which is updated on a regular basis to ensure the most current information as it relates to property tax exemptions. A print-out listing said exemptions is available at all times. In fact, your office was provided access to the print-out during the examination process.

As to the self-reporting forms processed by our office, we make every effort to obtain and verify the best information available from the reports we receive. If there is a question concerning the proposed exemption, then the applicant (business) is contacted for further clarification.

The exemption contract submitted to this office by the Department of Economic Development often contain omissions. When this occurs, this office will contact the Department of Economic Development to clarify the issue.

222 ST. LOUIS STREET – ROOM 126 / BATON ROUGE, LOUISIANA 70802 / (225) 389-5125

In summary, it would be of great assistance if the Louisiana Tax Commission would provide a more structured role for the various assessors. If accomplished, this would ensure that all assessors are operating under a uniform system to fairly address the exemption process.

With warmest regards, I am

Sincerely,

Brian Wilson

Brian Wilson, Assessor
East Baton Rouge Parish

BW/jb

cc: Larry Owens, Chief Deputy

Lafayette Parish

CONRAD T. COMEAUX
Assessor, Lafayette Parish
Répartiteur, Paroisse de Lafayette
P.O. BOX 3225 | LAFAYETTE, LA 70502-3225 | TELEPHONE: 337-291-7080 | FAX: 337-291-7086

April 11, 2003

Grover Austin, CPA
First Assistant Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Findings of the Assessment Practices for Businesses Claiming Industrial Property Tax Exemptions

Dear Mr. Austin:

We wish to thank you and the audit staff of the Legislative Auditor's office for examining the assessment practices used for businesses claiming industrial property tax exemptions. The findings in this report reflect issues that Louisiana assessors have been apparently struggling with for many years.

The practices in question in Lafayette Parish were developed prior to my taking office in January 2001. Since becoming assessor, I have been addressing various practices used in the Lafayette Parish Assessor's office. We have strived to find best-practice methodologies in the assessment field that we could utilize in our office. To the extent possible, we have instituted changes and will continue to introduce changes to address issues raised in this report. The audit staff did an excellent job of presenting our situation in a fair manner.

My staff's ability to provide efficient, accurate assessments has been hindered by the inadequate software in use here since the mid 1980's. The system lacks the capability to perform any analysis on the assessments because most of the data cannot be input into the database. Much of the work in the Lafayette Parish Assessor's office must be done on paper and not on computer, thus increasing the likelihood of error. To correct this situation, we will be acquiring a new assessment administration and Computer Assisted Mass Appraisal (CAMA) system later this year. With this new software, we will have the ability to better track and value all properties with tax exemptions.

The following is a response to the Assessment Practices for Businesses Claiming Industrial Property Tax Exemptions' Matrix of Findings for Sample Parishes.

Criterion Heading: **INTERACTION WITH DED**

Criterion 1: "Upon receipt of exemption application from DED, assessor verified accuracy of dates of construction/beginning of operations."
Finding: "No"

And

Criterion 2: "Assessor ensured that DED's determination of manufacturing status is correct."
Finding: "No"

Response: The first sentence on page 11 of this report, under the heading Interaction with DED provides the very reason as to why the findings for Lafayette Parish are "No". The statement says, "By law, the Department of Economic Development (DED) regulates the Industrial Property Tax Exemption Program." Because DED regulates this program, the staff in the Lafayette Parish Assessor's office and I understood that the responsibility for administration of the program, including verifying accuracy of dates and manufacturing status, rested with DED. While the assessor's office is responsible for properly calculating the assessed values, the office has no legislatively provided regulation of the contracts. Providing assessor's office personnel to perform these functions would have been a duplication of effort of DED employees administering the contract, resulting in waste of taxpayers' money.

Criterion Heading: **RECORD KEEPING**

Criterion 4: "Assessor had detailed written policies and procedures related to assessment."
Finding: "No"

Response: The lack of written policies and procedures in the Lafayette Parish Assessor's office was of concern to me upon taking office in 2001. We needed to know that all employees, current and future, would be performing assessment tasks in the same manner. Because we will be acquiring new assessment administration software in 2003, we did not expend taxpayer's money to develop written policies based on procedures that would no longer be utilized. We did, however, begin the process of writing policies that will be employed with the new system.

Criterion 5: "Assessor received all report forms from businesses timely."
Finding: "Cannot Determine"

Response: The second paragraph under the heading "Many Businesses Either Returned Their Tax Forms Late or Did Not Return Them At All" on page 18 of this report correctly states that the LAT forms shall be returned by the first day of April or 45 days after receipt, whichever is later. The date the business received the form cannot be determined unless all of the LAT forms are delivered by certified mail with a return receipt requested at an additional cost of $1.75 per form. Therefore, the measurement of this criterion can only be possible if forms are mailed in this manner. The extra labor required and postage costs make mailing the LAT forms by certified mail cost prohibitive and not a wise use of taxpayer's money. State legislation could be revised to allow for a penalty to be applied if the form is not received by May 31. This would hopefully allow for any mail delivery slow-downs, as during the Anthrax scare, and allow an assessor to work the account prior to the books closing.

Criterion 6: "Assessor listed exempt property on tax rolls as constitution requires."
Finding: "No"

Response: With the inadequate software currently in place, the Lafayette Parish Assessor's office is not able to list exempt property on the tax rolls. Extensive computer programming would be required to modify the current database to perform this task. Rather than spend taxpayers' money to change the current outdated software, we have chosen to acquire a new assessment administration system. This will allow my staff to correctly list the exempt property and achieve compliance with the standards

Criterion Heading: **DATA VERIFICATION**

Criterion 10: "Assessor included depreciation information for fair market value determination with each LAT 5 or LAT 5-A form."

Finding: "No"

Response: This finding on this criterion is again a problem created by the antiquated software in use in the Lafayette Parish Assessor's office. Current year depreciation data is available for review but prior year information is not maintained in the database. Since taking office in 2001, we have tried to obtain CDs containing <u>all</u> assessor office data from Lafayette Consolidated Government's Information Systems Department, where the data is stored. To this date, the programmers in the Information Systems department have been unable to produce a CD with all data on it. Having this information on CD would have allowed the Lafayette Parish Assessor's office to meet this criterion.

Criterion 12: "Assessor included specific instructions for businesses with LAT 5 and LAT 5-A forms."

Finding: "No"

Response: The LAT forms in use in Louisiana have, for many years, presented problems for CPAs completing the forms. The State's forms are not user friendly and should be reconstructed with input from the business community. To alleviate part of the problem, we added a page of general instructions to the LAT 5 and 5-A forms used in Lafayette Parish. The instructions we developed were not detailed enough to meet this criterion but will be rewritten for the next tax year.

Criterion 16: "Assessor audited businesses with exemptions."

Finding: "No"

Response: As with Criterion 1, the staff in the Lafayette Parish Assessor's office and I understood that the responsibility for administration of the program, including auditing, rested with the Department of Economic Development. While the assessor's office does have legislatively provided auditing powers, providing assessor's office personnel to perform these functions may have been a duplication of effort of DED employees administering the contract, resulting in waste of taxpayers money. Perhaps the Louisiana Tax Commission, working with the Louisiana Department of Economic Development, could develop clear policies and procedures outlining the responsibilities of the assessors' and DED's staffs.

Criterion 17: "Assessor ensured that all businesses used authorized exemption amounts for proper time periods.
Finding: "No"

Response: The finding on this criterion also points to a problem related to the antiquated software in use in the Lafayette Parish Assessor's office. Because much of the work in the Lafayette Parish Assessor's office must be done on paper and not on computer, ensuring compliance with this guideline was very cumbersome. Add to this situation the inaccurate information provided by DED on these contracts and the entire process became ripe for error. The new assessment administration software will alleviate the problems in our office but DED will need to make changes as well to achieve total compliance.

Criterion 19: "If calculations were verified electronically, assessor maintained documentation to support subsequent assessments.
Finding: "No"

Response: As with Criterion 10, the inability of our current software to store historic data coupled with its lack of proper valuation tools resulted in the finding for this criterion. The new assessment administration software will address this issue.

Criterion 20: "Assessor received documentation for all businesses supporting salvaged (deleted) property."
Finding: "No"

Response: Having operated several small businesses, I know firsthand the complexities of maintaining a financially viable operation. Most companies do not have or take time to document the salvaging of assets—the manager simply removes them from the asset list. That asset list is then sent to the assessor with the LAT form. My staff has been instructed to obtain written documentation on the salvaging of assets covered under industrial tax exemptions.

Criterion Heading: **VALUATION**
Criterion 22: "Property was correctly assessed using 15% of fair market value for all sample businesses."
Finding: "Cannot Determine"

Response: Property in Lafayette Parish was correctly assessed using 15% of fair market value but the shortcomings of the software system made it difficult for the audit team to evaluate this criterion. This will be addressed with the new software.

Criterion 24: "Assessor maintained documentation supporting assessments for all real property (i.e., assessments were defensible)."
Finding: "No"

Response: Prior to my becoming assessor, reassessments were performed primarily using basic physical characteristics acquired in 1977. Because I was ordered to reassess all residential property shortly after taking office, no time was available to obtain current information on the properties. In 2002, I instituted an aggressive campaign to acquire updated physical characteristics that will be used in developing fair market values for the next reassessment. With the acquisition of the Computer Assisted Mass Appraisal (CAMA) software, many of the valuation calculations now performed by hand aided by simple computer calculations will be derived completely through defensible computer modeling. The valuation methodologies utilized in the new system are based on standards developed by the International Association of Assessing Officers (IAAO) and are well documented. The new system will allow historical data to be stored for future retrieval to verify past actions taken by my staff.

I have also reviewed the findings and recommendations pertaining to the Assessment Practices for Businesses Claiming Industrial Property Tax Exemptions and concur with the recommendations with prejudice. A major issue facing many assessors in Louisiana, as well as the Tax Commission, is funding. To meet all of the guidelines outlined in this audit, many of these entities will need additional money for staffing and computerization. Requesting funds from local governing authorities already experiencing financial difficulties is not a viable option. Increasing parish assessment millages is also not easily attainable due to taxpayer sentiments towards the assessment process. User fees could be a source of revenue but would probably be insufficient to cover the additional expenditures. This leaves State or Federal governments as the available funding sources—and just how realistic are these options?

Throughout this compliance examination, my staff and I attempted to provide all of the data requested by the auditors but with the inadequacies of our current software some items were impossible to produce. I know that we all responded openly and candidly to the questions posed by your audit team. Surely your auditors observed that my staff and I are working diligently to refine and improve the assessment practices in Lafayette Parish. With the assistance of the Legislative Auditor's office, the Louisiana Tax Commission, the Department of Economic Development and the State Legislature, we could achieve many of the desired results within the next two years.

If you should have any questions, please feel free to contact me by phone or e-mail.

Sincerely,

Conrad T. Comeaux

Conrad T. Comeaux, M.B.A., M.H.A., C.L.A.
Lafayette Parish Assessor

Orleans Parish
Third Municipal District

ERROLL G. WILLIAMS
ASSESSOR — THIRD MUNICIPAL DISTRICT
WARDS — 7, 8 & 9

4E01 CITY HALL — NEW ORLEANS, LA 70112 — (504) 565-7070

April 11, 2003

Office Of Legislative Auditor
State of Louisiana
Attention: Mr. Grover C. Austin, First Assistant Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Austin:

Re: Ten-Year Commerce & Industry
Contract Report

This is a follow-up to your initial report and examination of our assessment practices regarding the 10-year State of Louisiana Commerce and Industry Contracts. We found this analysis to be more helpful than the one done on the overall performance examination of our residential properties. There are several matters with which we do take exception, however.

We follow the Louisiana Tax Commission guidelines when we annually mail out LAT 5 and 5-A self-reporting forms to all businesses that have State Commerce and Industry contracts. Unless more stringent penalties for failure to accurately file the forms are put into place by the state legislature, we do not believe we can do any more than we are doing - given budgetary constraints - to ensure compliance from the recipients of those forms. We stress the importance of the form and that it be timely returned to our office. We impose a 20% higher assessment penalty for those who fail to file and require those who wish to file an amended form to submit the $20.00 fee to the Louisiana Tax Commission (LTC) for processing the necessary paperwork.

We do believe that we are accurately assessing real property after a contract has expired. We don't view the cost method as applicable or a realistic method to accurately determine market value on property which is already ten-years old. When we have tested the secondary market on these type of properties and it demonstrates that the value of such real property is usually lower after ten years than the depreciated value used in the cost approach method. An example would be the addition of a wall, partition, or foundation support for a piece of equipment. The type of such construction is often of such a specialized nature that the added value to the building as a whole may range from the insignificant to substantial. These situations require as much in-depth analysis as the construction of an entire building. Only after the evaluation of the continuing contributory value of such real property can we ascertain the value is the same way as the building in which it is located upon the expiration of the contract.

Lastly, we would like to voice concern over the use of other state policies referenced in this report without considering their distinct legal differences from our state. We wonder if the performance of the other states has been audited. We realize that our performance has been the subject of scrutiny. However, were those states referenced in your study evaluated to determine if they are following their states' rules and regulations as carefully as they are supposed to by law? We think that only if those assessors' administration of their duties been studied in-depth, as those in Louisiana have been, can the true measure of their worth be determined as role models for this state.

In conclusion, we want to again state that we found this report to much more incisive, direct, and helpful than the overall real estate performance audit that was done by your office. This report has a clear focus that was lacking in the larger context of that performance audit. We are studying the suggestions made in your report and making note of those areas where we can implement changes to enhance our performance. We recognize that our state can improve the manner in which we handle the assessment and review of this state's commercial contracts. We are hopeful that a detailed guideline with realistic approaches to value will be developed from this review to assist us in this effort.

Sincerely,

Erroll G. Williams, Assessor
Third Municipal District

EGW:tk

cc: Ms. Cheryl Tucker-Smith, CPA

St. Tammany Parish

Patricia Schwarz Core
Certified Louisiana Assessor
St. Tammnay Parish Courthouse
510 East Boston Street
Covington, Louisiana 70433

April 14, 2003

Mr. Grover Austin
First Assistant Legislative Auditor
State of Louisiana
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: St. Tammany Parish Audit

Dear Mr. Austin:

In response to the findings and recommendations listed in your report of March 28, 2003, we positively need written guidance in regard to the five (5) year industrial exemption program. These guidelines could be included in the Rules and Regulations Manual promulgated by the Louisiana Tax Commission (LTC).

RESPONSES TO FINDINGS INCLUDED IN APPENDIX B:

Finding 1.

It is apparent that Assessors rely on the Department of Economic Development (DED) for guidance in the industrial exemption area. The responsibility for contract approval lies with the DED. For this reason, we do not contact businesses concerning these contracts. If this is the responsibility of the Assessor, this should be included in the duties of the Assessor as prescribed by Louisiana Revised Statutes.

Findings 2, 6, 7.

We do review the final contract after it has been approved by DED. Our tax roll is notated with the information contained in the exemption contract. As explained to the auditors, we do not place exempt property on the tax roll until the exemption has expired. We feel this is a more logical approach because many companies go out of business during the exemption period or move their industry to another state. Legislation would be required to change the current requirement. A copy of the exemption application is provided to the Assessor by DED. We do not participate in the approval process of the application.

Covington (985) 892-6150
Fax (985) 892-7420

Member
International Association of Assessing Officers

Slidell (985) 646-1990
Fax (985) 646-1920

Finding 4.

We do have written policies and procedures. These policies and procedures were presented to the auditors. We will begin, immediately, to expand upon these policies and procedures to provide a more detailed manual.

Findings 5 & 12.

For the 2003 tax roll, we mailed out the LAT 5 on January 15, 2003, which is one month prior to the required February 15th deadline. We have no control over whether or not a business or an industry responds to our correspondence in a timely manner. In addition to the LAT 5, a copy of the asset list submitted by the business in the preceding year is also sent to the taxpayer. This is beyond the requirements of Louisiana Revised Statute 47:2324. Please see attachments (1), (2) and (3).

Although specific instructions for completion of the LAT 5 are not included, we do have general instructions which are sufficient for business owners who have reported in the past. We also have a contact person and number listed in our correspondence for new business owners or individuals who have questions concerning the completion of the LAT 5.

Findings 8, 9, & 10.

We maintain a file on each exempt contract. Contract numbers are listed on all forms, spreadsheets, etc. contained in this file.

Finding 13.

Of the 12,087 personal property listings on the 2002 tax roll, 9,669 of these businesses reported their itemized fixed asset listings as required by LTC regulations. This represents an 80% reporting rate which is well above the 50% state wide average.

Finding 16.

According to your finding, eleven out of twelve Assessors do not audit businesses. Although we do conduct desk audits of businesses, we do not have the manpower nor the financial resources to effectively conduct routine field audits. In many instances, we have relied on the LTC for audit assistance on both real and personal property issues.

Findings 17 & 21.

Form LAT 5a was mailed out on January 15, 2003. This form will provide us with the necessary information required to ensure that all businesses use authorized exemption amounts as specified in the exemption contract and will allow us to compare exemption amounts to the industry's total reported property.

Findings 3, 11, 14, 15, 18, 19, 20, 22, 23 & 24.

No response required.

FINAL COMMENTS:

Most Assessors do not have the staff necessary to conduct individual audits of companies who have already received approval from DED. For this reason, we feel that the responsibility for the correctness of these contracts lies in combination with the LTC and DED.

I agree fully with your recommendation to the Legislature of changing the valuation method of property from fair market value to probable value, as recommended by the International Association of Assessing Officers. This would allow Assessors to use their professional expertise and judgment in determining the most appropriate assessment for property in their parish.

Sincerely,

Patricia Schwarz Core

PATRICIA SCHWARZ CORE, CLA,CRS,CRB,GRI
Certified Louisiana Assessor

PSC:sc

Attachments

Patricia Schwarz Core
Assessor

St. Tammany Parish Courthouse
510 East Boston Street
Covington, Louisiana 70433

Finding 5
~~Attachment (1)~~
New businesses discovered

January 15, 2003

Dear Business Owner:

As required by Louisiana Revised Statute 47:1952A, you must complete the enclosed 2003 Personal Property Report **AND RETURN THIS FORM NO LATER THAN APRIL 1, 2003. IF YOU HAVE GONE OUT OF BUSINESS, ON OR PRIOR TO JANUARY 1, 2003, PLEASE NOTE THE DATE OF CLOSURE ON THE REPORT SIGN AND RETURN TO THIS OFFICE.** By failing to file a report when it is due, a property owner loses the right to appeal the assessment by the Assessor (R.S. 47:2329).

In addition to reporting the inventory, furniture, fixtures, machinery, equipment, etc. . . ., this year it is extremely important that the general information section in the upper right-hand portion of the form be completed as well. We would appreciate you providing us with the full name indicated on mailing label, a business telephone number and the name of the owner or person to contact. Please be sure to include the specific type of business. For example, you should specify Retail-Men's Clothing or Wholesale Pipe Supply, rather than simply retail or wholesale.

If you need assistance completing your report, please call my Personal Property Supervisor, Lynda Canone at (985) 892-6150. She will gladly answer any questions you might have.

I am proud to be your assessor and I am here to serve you. I remain, as always,

Sincerely,

Patricia Schwarz Core

Patricia Schwarz Core, CLA, CRB, CRS, GRI
Certified Louisiana Assessor

PSC:sc

Patricia Schwarz Core
Assessor

St. Tammany Parish Courthouse
510 East Boston Street
Covington, Louisiana 70433

Finding 5
Attachment (2)
Previous year(s) reported

January 15, 2003

Dear Business Owner:

As required by Louisiana Revised Statute 47:1952A, you must complete the enclosed 2003 Personal Property Report to our office **no later than April 1, 2003.** "If you fail to file a report when it is due, a property owner loses the right to appeal the assessment by the Assessor." (Revised Statute 47:2329)

In order to better serve you we have entered in our computer, the Furniture and Fixtures, Machinery and Equipment, and Leasehold Improvements that you submitted to this office on your 2002 Personal Property Report. It will not be necessary for you to relist these items in Section 2, Section 3 and Section 4 on the 2003 Personal Property Report. Please refer to the attached Business Asset List and make any necessary changes, corrections, deletions and/or additions on this form for these 3 Sections. **IF YOU HAVE GONE OUT OF BUSINESS ON OR PRIOR TO JANUARY 1, 2003, PLEASE NOTE THE DATE OF CLOSURE ON THE PERSONAL PROPERTY REPORT, SIGN AND RETURN TO THIS OFFICE.**

If you should need assistance completing your report, please call my Personal Property Supervisor, Lynda Canone, at (985) 892-6150. She will gladly answer any questions you might have.

I am proud to be your assessor and I am here to serve you. I remain, as always,

Sincerely,

Patricia Schwarz Core

Patricia Schwarz Core, CLA, CRB, CRS, GRI
Certified Louisiana Assessor

PSC:sc

ST. TAMMANY PARISH ASSESSOR
510 E. Boston St.
COVINGTON, LA 70433

Date: 12/27/02

Bs. Code: 20300
Rpt Stat: 2

Finding 5
Attachment (3)

Assets reported previously.

Item	Yr	Other Moveable Assets	Org. Cost	Deletion or correction
1	2000	MACHINERY/EQUIPMENT	$2,782	
2	1996	MACHINERY/EQUIPMENT	$1,850	
3	1997	MACHINERY/EQUIPMENT	$9,938	
4	1997	MACHINERY/EQUIPMENT	$5,995	
5	1996	MACHINERY/EQUIPMENT	$1,450	
6	1993	LEASEHOLD IMPROVMNTS	$3,098	
7	1993	MACHINERY/EQUIPMENT	$1,720	
8	1993	MACHINERY/EQUIPMENT	$5,061	
9	1998	MACHINERY/EQUIPMENT	$15,291	
10	1998	MACHINERY/EQUIPMENT	$1,423	
11	1998	MACHINERY/EQUIPMENT	$2,213	
12	1998	MACHINERY/EQUIPMENT	$2,213	
13	1998	MACHINERY/EQUIPMENT	$2,615	
14	1998	MACHINERY/EQUIPMENT	$2,615	
15	1998	MACHINERY/EQUIPMENT	$2,615	
16	1998	MACHINERY/EQUIPMENT	$2,615	
17	1998	MACHINERY/EQUIPMENT	$2,615	
18	1998	MACHINERY/EQUIPMENT	$2,210	
19	1998	MACHINERY/EQUIPMENT	$2,210	
20	1998	MACHINERY/EQUIPMENT	$2,040	
21	1998	MACHINERY/EQUIPMENT	$2,040	
22	1998	MACHINERY/EQUIPMENT	$3,560	
23	2000	MACHINERY/EQUIPMENT	$5,661	
24	2001	MACHINERY/EQUIPMENT	$1,558	
25	2001	MACHINERY/EQUIPMENT	$10,468	
26	2001	MACHINERY/EQUIPMENT	$6,673	
27	1983	MACHINERY/EQUIPMENT	$1,761	
28	2000	FURNITURE/FIXTURES	$1,424	
29	1995	MACHINERY/EQUIPMENT	$8,164	
30	1993	LEASEHOLD IMPROVMNTS	$1,300	
31	1993	LEASEHOLD IMPROVMNTS	$23,055	
32	1993	LEASEHOLD IMPROVMNTS	$1,905	
33	1992	MACHINERY/EQUIPMENT	$16,600	
34	1993	MACHINERY/EQUIPMENT	$3,234	
35	1993	MACHINERY/EQUIPMENT	$1,799	
36	1993	MACHINERY/EQUIPMENT	$1,068	
37	1990	FURNITURE/FIXTURES	$392	
38	1990	FURNITURE/FIXTURES	$397	
39	1998	MACHINERY/EQUIPMENT	$1,514	
40	1995	LEASEHOLD IMPROVMNTS	$10,031	
41	1993	LEASEHOLD IMPROVMNTS	$3,527	
		Total	$178,700	

ST. TAMMANY PARISH ASSESSOR
510 E. Boston St.
COVINGTON, LA 70433

Date: 12/27/02

Acct No.: 212-882-0090
Bs. Code: 20300
Rpt Stat: 2

Enter additional items acquired in calendar year 2002, be specific.

Year Acquired	Type Item	Original Cost
2002		
2002		
2002		
2002		
2002		

Please Sign:____

West Feliciana Parish

West Feliciana Parish Assessor's Office
P. O. Box 279
St. Francisville, Louisiana 70775
Phone (225) 635-3350 Fax (225) 635-9581

April 11, 2003

Mr. Grover C. Austin
First Assistant Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Sir:

My response to you on some forty pages of findings by several of your staff can not be in detail enough to address each page for several reasons. Most of the time you have addressed what twelve assessors have done and how they varied. One question of mine is how much did they vary? Another statement in many cases, you mentioned about how the Louisiana Tax Commission should do this or that or enforce this or that. Never did you say just what West Feliciana did good or bad. How can I answer that? I also can't answer what any other parish did.

I rely on the Rules and Regulations of the L. T. C. that is updated each year to guide me to assess all property. I also refer to Marshall and Swift and I.A.A.O. for recommendations whenever it is necessary.

Maybe any operation can be improved if they have the resources such as, money, space and employees to work with. You cannot get improvement without all of the above resources.

Can you supply the L. T. C. with resources to help all seventy Assessors to do a better job? Can you supply all Assessors with resources to do everything that you think needs to be corrected? Assessors and accountants have long differed on the valuation of property and I feel this is a classic example.

I have been Assessor for eighteen years and while I have been reelected each four years with a staff of plenty experience none of my parish entities have questioned my desire to assess people fair and at the same time generate the funds needed to maintain the desire of the people of this parish.

I remain open minded to improve our operation if we have the resources to carry out any rules and regulations that is set before us.

Sincerely,

W. D. Spillman

W. D. Spillman,
Assessor

Appendix E

Department of Economic Development’s Response

April 16 2003

Mr. Grover C. Austin
First Assistant Legislative Auditor
Office of Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

Dear Mr. Austin:

Once again, the representatives of the Legislative Auditor's Office have done a great job of working with our incentive administrators during the review of our policies and procedures applicable to the administration of Louisiana's various incentive programs.

Since I have been appointed Secretary of Louisiana Economic Development, numerous changes have been made to the Agency and many more either are in the works or planned. Ongoing improvements include a review of our processes for the administration of the various programs under the authority of Louisiana Economic Development. To name a few, they include: the consolidation of all of our programs into a single database and tracking system and the incorporation of some of your team's previous recommendations, such as posting advance notifications and agendas on our website, www.led.state.la.us.

The following responses address the Legislative Auditor's findings and recommendations made during the recently concluded limited examination of the assessment practices related to businesses claiming industrial property tax exemptions.

In your first recommendation, you state that the Louisiana Tax Commission should work with the Department of Economic Development to revise DED's regulations to state that assessors have the authority to question and assess unqualified property that has been approved for exemption.

The Department agrees to work with the Louisiana Tax Commission to ensure an avenue of appeal is developed for assessors to formally protest the granting of a tax exemption on equipment that is considered to be ineligible for exemption.

Specifically, if an assessor feels an item or items were granted exemption and are ineligible, he or she could provide written protest to our program administrator. This protest should include a statement of protest and a request that a staff member from Business Incentives do an on-site inspection of the facility with the assessor and allow the assessor the opportunity to point out the item or items in question.

If the Business Incentives inspector agrees that an item is ineligible, he can do one of two things: (a) request the contractee file an amended Affidavit of Final Cost or (b) provide the Board of Commerce and Industry a report verifying the items are ineligible. C&I staff would then recommend to the Board that the contract be adjusted to appropriately reflect the eligible exemption amount. In the event the applicant disagrees with the determination, the contract would be resubmitted to the Board for their review and reconsideration.

Currently, the assessor has the authority to review and question all items granted exemption with an expectation that full consideration will be afforded by the Board of Commerce and Industry before making a decision regarding the eligibility of an item or items.

Secondly, you recommend that the Tax Commission should work with the Department of Economic Development to:

1. Implement controls that insure data sent by DED to local assessors is correct and work with assessors and DED to resolve discrepancies.
2. Develop a statewide database of exemption contracts that is accessible by all assessors.

The Department agrees that a single database should be developed and that adequate controls should be in place to ensure the accuracy of information that is sent to assessors throughout the state. LED is in the process of developing a unified database for all department activities and tax exemption information is part of this major undertaking. As part of the improvements to the database, the portion that contains the information on exemptions will be accessible through a read-only page on the Department's internet site. The department is willing to work with the Tax Commission to accomplish this task.

Thank you once again for the opportunity to work with your staff in creating a process and system that encourages accuracy and accountability in the administration of LED programs.

If you have any questions, call me at 342-5388.

Louisiana: THE state in which to live, work, visit and do business!

Don Hutchinson

Don J. Hutchinson
Secretary of Economic Development

Appendix F

Department of Revenue’s Response

M. J. "MIKE" FOSTER, JR.
Governor

STATE OF LOUISIANA
DEPARTMENT OF REVENUE

CYNTHIA BRIDGES
Secretary

RECEIVED
LEGISLATIVE AUDITOR
03 APR 15 AM 11:59

Mr. Grover C. Austin
First Assistant Legislative Auditor
Louisiana Office of Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Austin:

RE: Assessment Practices Audit – Industrial Property Tax Exemptions

In your e-mail dated April 3, 2003, you asked that the Department of Revenue respond to a matter of legislative consideration being contemplated for proposal by your office. The nature of the proposal related to "amending R.S. 47:1501 to require the Department of Revenue to include industrial property tax audits within the scope of their responsibilities."

Our primary concern with the legislative proposal mentioned above is related to resources. It is our opinion that, based on current level of available resources, we cannot add any additional audits to our responsibilities without a material negative impact on the number of audits conducted annually. As you are aware, we currently audit less than one-half of one percent of the business accounts registered with the Department of Revenue. We are under constant criticism and pressure to increase our coverage in times of diminishing resources. Adding another area of responsibility would certainly not be in the state's best interest at this time.

However, given a sufficient amount of resources to audit industrial property tax exemptions, we believe that the Department would be more than capable of handling such a task. Due to the relative short amount of time given to respond, we are not able to provide you with an estimate of how much it will cost to accomplish this task. Providing you with an estimate of resources needed would require a study of the problem and a determination of an acceptable percentage of audited contracts and/or accounts.

Currently, the Department of Revenue's role and exposure in the property tax arena is very limited. We do not have an expert on our staff that is even vaguely familiar with property taxation issues. Given the authority to audit in this field would certainly produce a learning curve. The same would not be true for either the Louisiana Tax Commission or the local assessors offices. They are perhaps in a better position to audit the industrial property tax exemptions and/or train additional personnel to do so. In addition, they currently have the authority to assess and enforce the collection of delinquent property taxes. Relocating only the authority to audit within the Department of Revenue would negate any synergy created and developed by locating the entire process with one owner.

The intent of this response is to assist you in reaching a conclusion about the best location for an audit program for the industrial property tax exemption program. The Department of Revenue officials and its employees strive to achieve the desired outcome for all program assigned to it.

Please let me know if any additional information is needed from this agency.

Sincerely,

Clarence J. Lymon, CPA
Assistant Secretary
Office of Tax Administration – Group III