

Maricopa County Assessor's Office Internal Policy and Procedures

Title: Accrued Depreciation and Obsolescence

Number: RP-0206080204

Policy Category: Standard Appraisal Methods and Techniques

Date: Feb. 6, 2008

Initiating Division: Real Property

Revision: 1

Reviewed by: All Managers

Approved by: Joe Propati, Chief Appraiser

Revision Date: Mar. 31, 2008

A. Purpose

This policy establishes procedures in the determination and calculation of accrued depreciation and all forms of obsolescence to establish Full Cash Value when valuing real property by "fee", not "mass, appraisal methods. This policy requires documentation to support the determination of obsolescence, and mandates the use of standard appraisal methods and techniques to measure it. The policy also requires adherence to the standards of proof as established in "Eurofresh vs. Graham County" as issued by the Arizona Court of Appeals and requires that an appraiser provide proof that any obsolescence identified is applicable to the subject property. This policy supersedes any other policy or procedure related to the determination and use of obsolescence in establishing value and is mandatory for all departments and employees.

B. Policy & Procedures

1. All Assessor employees shall implement this policy when determining physical depreciation or obsolescence of real property independent of the Department of Revenue's "Cost Depreciation Schedule."
2. If a statutory requirement or law contravenes the procedures prescribed herein, the statutory directive shall be followed.
3. All physical depreciation and obsolescence shall be determined through the use of standard appraisal methods and techniques as prescribed in authoritative appraisal manuals and as required by law.
4. Pictures shall be taken of all property granted obsolescence, and when possible photos shall be taken to document the type of obsolescence found.
5. The "Secured System"/ Cost /"remarks" section shall include the type of physical depreciation or obsolescence identified, the parcel numbers of the properties used in measuring the determined amount, and the calculations used to make the determination. The appraiser shall provide a brief narrative that explains, what was found, what was done and why. This information shall be electronically scanned into the "K drive" as a picture file and identified by the subject parcel number and titled "OBS Calcs."
6. A permanent obsolescence factor shall not be entered into the Secured system for curable items of depreciation. Only adjustments for incurable forms of depreciation should be entered in the Secured system as permanent adjustment. Generally, physical deterioration shall be ignored unless it is an extreme situation because it is accounted for in normal age-life depreciation. In extreme cases, for instance a caved-in roof, the cost to cure or the loss in utility may be considered as a value

adjustment. Curable forms of obsolescence are in most instances cured within a short period of time and should be addressed on appeal if and when necessary.

7. No matter the method(s) used to determine accrued depreciation, the depreciation amount shall only be deducted from Replacement Cost New (RCN) to arrive at a cost value estimate, not from the DOR depreciated cost (RCNLD). Accrued depreciation for the improvements will be established after a land value has been deducted from either market sales or a fee simple market income estimate so that only the depreciation attributable to the building is deducted from the RCN. If the Age-life method is used, a land-to-building ratio will be used to weight the depreciation attributable to the improvements. To determine the percentage of obsolescence to be entered into the Secured system, the accrued depreciation determined for the building only will be adjusted downward by the physical depreciation allowed for in the Marshall & Swift (M&S) system and the remaining dollar amount of depreciation will be divided by the depreciated M&S cost in the Secured system. This result shall establish the appropriate obsolescence percentage to be entered into the Secured System.
8. A Manager of the Real Property Division shall approve all specific adjustments for obsolescence prior to any value recommendation being offered or granted, or any property record is changed in the "Secured" system or equivalent. The Chief Appraiser shall approve any obsolescence, which changes a property or parcel value by 20%, or more of the total value.
9. Each Manager shall ensure that all Property on the Secured Cost System that has obsolescence and/or a physical condition adjustment is reviewed annually to make a determination if the adjustment for depreciation is still warranted. All adjustments of this type shall be addressed and reviewed on an annual basis (or on appeal) due to how quickly the market or property condition may change. Each Manager of Real Property shall provide a complete improvement / parcel count and associated dollar value estimate of all obsolescence adjustments under their jurisdiction to the Chief Deputy and the Chief Appraiser thirty days in advance of the roll being sent to the printer.

D. Manufacturing & Other Special Industrial Property (Motorola, Intel, etc.) shall be addressed in this policy at a later time when research and analysis is completed.

E. Contaminated Property Obsolescence

1. A Phase II analysis as defined by the Environmental Protection Agency or equivalent on the subject property shall be submitted by the taxpayer before any environmental contamination shall be considered.
2. Prior to the calculation of any obsolescence for environmental contamination, an engineers report on the costs to clean up the subject property shall be provided by the owner(s) along with a signed affidavit that states the financial liability of the owner for the clean up of the subject property. In addition the owner shall report on the affidavit any reimbursement(s) received or anticipated from the government or any other entity in connection with the clean up.
3. The methodology and procedures used to determine the obsolescence for environmental contamination shall conform to this general policy for determining, offering or granting obsolescence.

F. Authority and Responsibilities

1. All managers, supervisors and appraisers of the Maricopa County Assessor's Office shall ensure this policy is adhered to.