

REPORT

OF

THE 2014 MARYLAND

ASSESSMENT WORK GROUP

PREPARED FOR

THE GOVERNOR
AND
THE GENERAL ASSEMBLY
OF
MARYLAND

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1.0 Executive Summary – Assessment Work Group

The 2014 Maryland Assessment Work Group (AWG) was established pursuant to Senate Bill 172 to examine issues related to the assessment process for real and personal property, tax credits, and exemptions. AWG was charged with examining the following issues:

1. Whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;
2. The Department's ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties on the tax roll;
3. The extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and
4. The feasibility of, and any legal impediments to, contracting with a third party vendor to perform periodic audits of the property tax credit and exemption programs for which the Department calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy.

SDAT began some of the work on behalf of AWG in May 2014 by developing and implementing several specialized data collection projects that were presented to AWG:

1. An analysis of the work that is required (referred to as CORE Processes) of real property assessors in the 24 Assessment Offices;
2. A statewide review of the means of transmitting building permits, vacant property, and other information to SDAT by the 24 local governments;
3. A special review and physical inspection of 1,554 randomly chosen real property accounts in 7 local jurisdictions to test the need for physical inspections;
4. A summary by jurisdiction of the 206,109 properties that were physically inspected and included in SDAT's administrative assessment valuation system (AAVS), and assessment information management system (AIMS) reports for the January 1, 2015 Reassessment Notices;

5. A summary of the 29,551 new construction accounts for a 2.5 year period added to the assessable base of the 24 jurisdictions;
6. A report containing the results of a special physical inspection and reexamination of all 3,424 real properties in Baltimore City that receive a charitable, educational, or religious exemption; and
7. At the time the BRFA language was adopted, SDAT had just begun the StateStat process. StateStat presented a summary of its findings and recommendations to AWG in November and upon review found many of them mirrored those identified by AWG. The StateStat report including SDAT responses has been included in the document in Appendix 6.4.

Potential Solutions /General Recommendations:

There are three general recommendations made by AWG which apply to all four of the charges studied by the Work Group. These recommendations are:

- SDAT should look at new business processes in an effort to realize additional efficiency within the assessment and other administrative processes and how technology can be utilized to maximize that efficiency;
- Since local governments are major business partners with SDAT, we recommend that the legislature or Governor consider the creation of an Advisory Council. The Advisory Council would include representatives from SDAT, appropriate state agencies and local governments. In order to assure progress on the implementation of the AWG's recommendations concerning physical exterior inspection, timely pickup, and calculation of tax credits and exemptions, the Advisory Council would meet periodically to discuss issues of mutual interest and concern, including the development of new business processes, the leveraging of new technologies, and matters specifically raised by any partner; and
- Staffing for the assessment, tax credit and exemption functions of SDAT remains a matter of importance but it must be considered in light of new technology and changes to business processes.

The heart of the AWG report is in Section 1.1 – Findings, Conclusions and Recommendations beginning on page 10. It summarizes findings and recommendations for each charge of AWG.

THE NEED FOR PHYSICAL INSPECTIONS

AWG found that physical inspections are necessary on some periodic basis; that SDAT does not have the resources to ensure physical inspections of every property as required by law; and, that the lack of physical inspections does impact the accuracy of property assessments.

AWG does not suggest any statutory changes at this time but recommends reconsideration after the conclusion of a technology pilot project currently underway that includes remote verifications of property characteristics.

This pilot project is using existing staff and will allow SDAT to determine if there are positive improvements in assessments, as well as identify appropriate staffing levels to complete remote and timely onsite inspections. If successful, the technology should be used in appropriate jurisdictions and should emphasize using existing technology available through other State agencies and local governments by leveraging existing resources and by establishing data sharing and use agreements.

Primary Recommendations for Physical Inspections:

- Physical inspections of properties are necessary for assessment quality, uniformity, and verification of property characteristics, unless there is an adequate substitute technology for this traditional assessment methodology;
- SDAT should complete its evaluation of the oblique aerial photography pilot project that is ongoing in two counties to determine if this is the preferred technology to serve as the necessary substitute, replacement for, or as a complement to physical inspections of real properties for assessment purposes;
- Once the results of the pilot project are known, SDAT should report its findings and make a recommendation to the General Assembly for a change in the law regarding the requirements for physical inspections of properties;
- SDAT should also conduct a comprehensive analysis of aerial photography and other complementary technologies to determine how the number of additional assessor positions required for the physical inspection of one-third of all the properties each year can be reduced; and
- Local governments already in possession of oblique aerial photography and SDAT should partner in renegotiating licenses and data contracts to include SDAT employees in local assessment offices as permissible users of the information.

TIMELY PICKUP OF NEW PROPERTY

Outdated technology and staffing shortages have also compromised the maintenance of property changes for new construction and incorporating building permits provided by local governments.

Better systems communications need to be established between local assessment offices and their corresponding local governments that recognize differences in technology from jurisdiction to jurisdiction. The overall goal should be to move toward complete electronic transmission of information, including feedback information on how building permit information is used in property valuation.

The pilot project should also address the usefulness of remote technology (specifically oblique aerial photography) in picking up new properties, renovations and demolitions.

Primary Recommendations for Timely Pickup:

- Since local governments and SDAT are partners with shared responsibilities in property tax administration, local governments should, to the extent possible, assist SDAT with the timely pickup of new or renovated properties by providing their building permit, change in use, occupancy, and vacancy information in a convenient electronic format;
- SDAT should develop and improve data sharing mechanisms for local governments providing follow-up on the actions taken by SDAT on building permits and other information; and
- SDAT should look at new business processes in an effort to realize additional efficiency within the assessment process and how technology can best be utilized to maximize that efficiency.

TAX CREDITS AND EXEMPTIONS

Discrepancies in the calculation of credits and exemptions have been adequately presented in reports from the Office of the Legislative Audits (OLA). Important findings pointed to the lack of auditing of credits due to staff shortages.

AWG supports the recommendations of OLA, especially those related to the Homeowners' and Renters' Tax Credits and the Homestead Tax Credit.

DLS also prepared a special report entitled Evaluation of the Enterprise Zone Tax Credit.

A response at the initiative of SDAT and the Department of Business and Economic Development (DBED) will be provided to the Co-Chairmen of the Tax Credit Evaluation Committee in December 2014. Many of the DLS recommendations are supported by AWG, including ensuring proper data collection and transmission. AWG also recommends

establishing new procedures to ensure that local governments receive their Enterprise Zone Credit reimbursements in a timely manner.

Regarding Real Property Exemptions, AWG recommends the use of an exemption questionnaire to be filed by certain tax exempt entities in order to affirm their continued exempt status and a new rating system developed by SDAT to review marginal exemptions on a more frequent basis.

Primary Recommendations for Tax Credits and Exemptions:

The primary recommendation of AWG for each type of tax credit and exemption under this charge is as follows:

- For the Homeowners' and Renters' Tax Credit Programs, SDAT should electronically scan and index all tax credit applications and attachments to increase the timeliness of tax credit audits;
- For the Homestead Tax Credit Program, SDAT will perform additional automated audits and a special test project of homeowners receiving the largest homestead credits to verify their continued eligibility for this credit;
- For the Enterprise Zone Tax Credit Program, SDAT should utilize its AAVS system to regularly produce uniform and complete reports for local governments and DLS on the amounts of assessment on which this credit is being granted; and
- For charitable, educational, and religious exempt properties, SDAT should utilize in all 24 assessment offices a standardized questionnaire and its new rating or "scoring" system to reexamine the continued eligibility of a property for exemption for one-third of the eligible properties each year or more frequently when circumstances indicate.

THIRD PARTY AUDITS OF TAX CREDITS AND EXEMPTIONS

The final charge of AWG was to consider the feasibility of, and legal impediments to, SDAT contracting with a third party vendor to perform audits on the accuracy of tax credit and exemption calculations. AWG examined the availability of vendors to perform these types of audits. While there are legal impediments preventing a third party vendor from auditing the Homeowners' and Renters' Tax Credit Programs, the Homestead Tax Credit Program and the Enterprise Zone Tax Credit Program could be subject to this type of outside review.

In addition, there are national firms that can physically reassess and evaluate exempt properties.

Primary Recommendations for Third Party Audits of Tax Credits and Exemptions:

- The use of third party audits performed by business firms is not recommended for tax credits and exemptions; and
- The audits by OLA were deemed sufficient by AWG.

PERSONAL PROPERTY

The annual assessment and certification of personal property are not occurring on a timely basis because of staff reductions. However, a new online personal property reporting system will be implemented by January 1 of 2015 which is expected to improve the timeliness of certifications. A variety of technology recommendations are made by AWG, including expansion of the online reporting system to all businesses by 2017 and incentivizing online filers.

Because some property filers misidentify their local jurisdiction to SDAT, there is a need to verify property locations in order to provide accurate initial certifications to the correct county and municipality.

Regarding an outside auditor, AWG recommends a pilot program to determine the cost and qualitative and quantitative benefit from a third party auditor. It is also recommended that a review be undertaken to determine the need for statutory changes to address confidentiality status of tax return information and responsibility for paying audit fees.

Primary Recommendations for Personal Property Assessments:

- SDAT should expand its new online return filing system due for deployment on January 1, 2015 to allow in the next two subsequent filing years the inclusion of all types of business entities and the use of third party accounting software;
- SDAT should conduct a staffing analysis based on the efficiencies of the new technology in order to determine the number of employees needed to conduct account discovery and perform regular audits; and
- For local governments and municipalities, SDAT should utilize verification software to match property location addresses for all types of filings in order to provide accurate initial certifications.

AWG acknowledges that the General Assembly created this study in recognition of the relationship between local governments and State government in the assessment of real and personal property, tax credit programs, and the granting of property tax exemptions for citizens and businesses in Maryland. The AWG Report provides an in-depth analysis of many of the important functions of SDAT and their impact on local governments. AWG believes that this report lays the foundation and opportunity for future work together as a means of achieving a more efficient and cost effective system that provides the most equitable and uniform assessment and tax system to the citizens we all serve.

1.1 Findings, Conclusions, and Recommendations

As directed by Senate Bill 172, AWG was established to examine issues related to the real and personal property assessment process. AWG included members from the public, state agencies, local and municipal governments, as well as from interested entities. The Maryland Association of Counties (MACo) and the Maryland Municipal League (MML) recommended a pool of candidates for AWG membership. In addition to AWG members, additional participants with interest in assessment administration were added to each of the four AWG Subcommittees.

1.1 Issues Examined

- Are physical exterior inspections necessary to properly assess property
- Can SDAT timely and adequately maintain changes in property on the tax roll
- The extent of discrepancies in tax credits and exemptions, and approaches for improving accuracy
- Feasibility of contracting with third party vendors to perform audits and other functions

Implementation of the recommendations of AWG will improve assessment administration, enhance equity for all payers of property taxes and provide for accurate billings for the State and local governments.

Potential Solutions /General Recommendations

There are three general recommendations made by AWG which apply to all four of the charges studied by the Work Group. These recommendations are:

- SDAT should look at new business processes in an effort to realize additional efficiency within the assessment and other administrative processes and how technology can be utilized to maximize that efficiency;
- Since local governments are major business partners with SDAT, we recommend that the legislature or Governor consider the creation of an Advisory Council. The Advisory Council would include representatives from SDAT, appropriate state agencies and local governments. In order to assure progress on the implementation of the AWG's recommendations concerning physical exterior inspection, timely pickup, and calculation of tax credits and exemptions, the Advisory Council would meet periodically to discuss issues of mutual interest and concern, including the development of new business processes, the leveraging of new technologies, and matters specifically raised by any partner; and
- Staffing for the assessment, tax credit and exemption functions of SDAT remains a matter of importance but it must be considered in light of new technology and changes to business processes.

PHYSICAL INSPECTIONS

Findings:

1. As noted in an OLA audit, SDAT does not currently have resources to make an exterior physical inspection of each property at least once every three years, as required by law;
2. The lack of physical inspections impacts the accuracy of property assessments; and
3. An onsite exterior physical inspection, conducted on some periodic basis, is necessary to properly assess real property for tax purposes to ensure that all relevant property characteristics are uniformly considered. Onsite inspections can be supplemented by the use of remote technology.

Potential Solution/ Recommendations:

The use of technology, new business processes, business process re-engineering, management communication, reporting, and appropriate staffing can improve assessment operations. It is possible for SDAT to increase the number of property inspections by using oblique aerial photography, improving data and business practices, and conducting onsite inspections on a periodic reassessment basis. A technology pilot project is currently underway that includes remote verifications of property characteristics with existing staff that will allow SDAT to determine if there are positive improvements in assessments, and identify appropriate staffing levels to complete remote and timely onsite inspections.

AWG is recommending that no statutory changes be made to the timeframe for property inspections at this time. Instead, the issue should be revisited by SDAT at the end of the pilot project and after new technologies and business process changes have been identified.

Technology to Assist with Assessments

1. SDAT should proceed with a pilot project, using oblique aerial photography linked with the AAVS valuation system, to understand the work production and staffing needed for remote and onsite property inspection, which should include metrics on efficiency;
2. If the oblique aerial photography pilot project is successful, this technology should then be implemented where appropriate. An Initial analysis indicates this would be in eight of the largest jurisdictions (Baltimore City, Anne Arundel, Baltimore, Harford, Howard, Frederick, Montgomery, and Prince George's Counties) as resources permit;

3. As time and resources permit, SDAT should use the state geographic information system (GIS), ortho photography or oblique photography, and any other appropriate technology with AAVS to improve the assessment process in the remaining local jurisdictions and pursue further enhancements in these eight jurisdictions;¹
4. Emphasis should be placed on maximizing greater efficiencies of existing technologies which could be accomplished by partnering with state agencies, such as DoIT, MDP, and local governments. SDAT will work to clarify what resources counties have and begin partnerships to ensure local assessment offices are able to access those tools where possible;
5. Local governments with oblique aerial photography should examine their leases for that product and have them amended to provide access to their local assessment office; and
6. An appropriate combination of systems, staffing, and technology is required to insure timely pickup of new property under \$100,000 and to complete the annual property inspection. Unless there are improvements in SDAT's ability to complete physical inspections, issues of incorrect property characteristics will continue.

Business Processes

1. SDAT headquarters staff, local assessment office staff and local government officials should have periodic management meetings to improve communications and the exchange of information;
2. In consultation with local governments, SDAT should develop meaningful reporting applications to augment those already in place to provide better management information, such as permit tracking, identification of those accounts having an onsite physical inspection, and those accounts remotely inspected;
3. Considering the volume of data that is transferred to and from SDAT, a complete information technology business process analysis should be performed in partnership with SDAT, local governments and appropriate state agencies; and
4. SDAT should periodically re-evaluate existing business processes and develop new business processes as necessary to achieve additional efficiencies.

¹ **Assessment Overview – Physical Inspection & Timely Pickup** – Pages 117 to 129 - There are several technological applications that help assessors' in their work. The most beneficial is oblique aerial photography linked to the valuation system. http://dat.maryland/Documents/File01_Overview.pdf

Staffing

1. The pilot project being performed in Anne Arundel and Frederick Counties using oblique aerial photography should include a study of the appropriate staffing levels needed to complete either onsite or remote inspections for each reassessment cycle. The pilot project should yield performance measures that could be applied statewide. The pilot project should acknowledge and reflect distinct differences between rural, suburban, and urban areas where possible in order to make the most effective use of the technology;
2. Qualified personnel should be provided to implement the use of appropriate technology, redesign business processes, and provide mass appraisal statistical assistance. This can be accomplished by SDAT employees or outside sources; and
3. Appropriate staffing should include trained IT staff, geospatial staff, management staff, assessors and clerical personnel. Personnel should have appropriate training in technology and business software applications, including statistical software.

Property Sketches

1. SDAT needs to continue the conversion of paper sketches to digital sketches for the remaining improved residential properties.²

TIMELY PICK UP - MAINTAINING PROPERTY CHANGES

Findings:

1. Outdated technology compromises the physical inspection process in each triennial review;
2. The staffing shortage also compromises the ability to incorporate all changes in property characteristics that may have occurred with or without building permits;
3. In some instances, properties were not properly updated to the tax roll; and
4. There is a lack of feedback on the use and receipt of information that local governments send to SDAT. It is unclear how and if information such as building permits, changes of use, change of address, etc. are incorporated in SDAT's systems and whether they are

² Of 1,668,019 improved residential properties, 1,044,414 (62.5%) have been completed as of 11/1/2014. The remaining properties to be sketched are in the larger counties where parcel counts per assessor are high.

considered as part of the re-assessment in the current year or in the triennial cycle. Local governments are unable to track what becomes of this data.

Potential Solutions/ Recommendations:

1. Partnerships with local jurisdictions should be developed for effective data sharing. Supervisors of Assessments, local government officials, and SDAT headquarters staff should improve communications by scheduling periodic management meetings;
2. SDAT should, in concert with each local assessment office and applicable county, develop better building permit tracking and aggregation, and management communication and reporting to ensure timely pickup of new construction, renovations, additions and demolitions;
3. SDAT will develop an electronic system where applicable that provides status updates, reports on building permits, and change of use. This system will enable local governments to track the status of data inputs;
4. Linking of local government vacant and abandoned property files or renovation tax credits would assist in identifying all changes in property value and also assist in the administration of the Homestead Tax Credit Program;
5. Counties with local real property tax credit programs and vacant or abandoned or uninhabitable property programs shall provide SDAT with files of that data in the most compatible format; and
6. Some jurisdictions are already providing building and property permits electronically. Jurisdictions without the ability to transmit this data electronically should move towards providing individual property permits through an electronic transmission. Until a county has the ability to do so, it should continue to submit permit information in the manner requested by the local assessment office. Paper or electronic images should be submitted along with data file extracts from those jurisdictions that have automated building permit systems.

TAX CREDITS AND EXEMPTIONS

Findings:

For the most part there have been limited instances of discrepancies in the calculation of tax credits and exemptions. These limited problems were adequately presented in two reports by the Office of the Legislative Audits (OLA) on the Homestead Tax Credits and Homeowners' and Renters' Tax Credit Programs.³

DLS also prepared a special report entitled Evaluation of the Enterprise Zone Tax Credit.⁴ A response at the initiative of SDAT and DBED will be provided to the Co-Chairmen of the Tax Credit Evaluation Committee in December 2014.

An important finding by OLA was the lack of auditing of these credits, particularly from 2008 – 2011, which coincided with the loss of significant SDAT staff. SDAT advises that the agency has completed the 2010 audit of the Homeowners' and Renters' Programs, and the audit did not produce any results outside the norm for recaptures. SDAT is currently working on the 2011 and 2012 audits. This information was reported to the OLA on November 12, 2014. While the instances of incorrect or improper credits or exemptions were limited, the lack of appropriate auditing could have masked this deficiency.

For real property exemptions, the special audit review of properties receiving tax exemptions in Baltimore City indicates that the majority (91.5%) of these properties should continue to be tax exempt.

Potential Solutions /Recommendations:

Homeowners' and Renters' Tax Credits

1. SDAT should utilize the two new employee positions it received in this program in the fiscal year 2015 Budget Appropriation to increase the timeliness of tax credit audits;
2. SDAT should electronically scan and index all tax credit applications and attachments to increase the timeliness of tax credit audits; and

³ Office of Legislative Audits Report-Homestead Tax Credit.

http://dat.maryland.gov/Documents/OLA_Homestead13.pdf

Office of Legislative Audits Report- Homeowners' and Renters'
http://dat.maryland.gov/File02_TaxCreditsAudit_12_16_13.pdf

⁴ See - Department of Legislative Services – Evaluation of Enterprise Zone Tax Credits; see footnote 13 for the link.

3. County governments should be required to submit the monthly report in an automated format for recaptured tax credits due to property transfers, which is one of the major audits performed by SDAT.

Homestead Tax Credits

1. SDAT should obtain in an automated format a monthly report from the Motor Vehicle Administration of all drivers' licenses where there is a change of address;
2. SDAT should make available for Homestead audit employees an individual "lookup" service of other financial information to be used in the audit of owner residency for Homestead accounts;
3. SDAT should do a test project with a vendor for an automated review of a meaningful sample of homeowners receiving the largest Homestead credits in each county to verify their continued eligibility; and
4. SDAT should continue its audit of duplicate Social Security numbers annually.

Enterprise Zone Tax Credit

1. SDAT should utilize the report writing feature of its AAVS assessment system to prepare three types of information reports (individual property, summary of all properties, and assessment reduction properties) on a quarterly and annual basis to ensure the accuracy of the amounts of assessments for which the Enterprise Zone Tax Credits are granted;
2. AAVS reports should be regularly provided and fully explained by SDAT to the local governments issuing the credits to enable them to perform their own review of the accuracy of the assessments used to grant all new and existing credits;
3. AAVS reports on Enterprise Zone Tax Credits should be uniformly prepared by SDAT for all jurisdictions in order to provide complete information to DLS for future reports on this program; and
4. SDAT should hire an administrative level employee to be assigned the full-time duties to oversee the administration of Enterprise Zone Tax Credits and other business tax credits.

5. SDAT should adopt new procedures to ensure that local governments receive their Enterprise Zone Tax Credit reimbursements in a timely manner. It should be noted that SDAT will introduce departmental legislation in the 2015 session of the General Assembly to clarify this reimbursement procedure. An additional legislative option could be to require that Enterprise Zone Tax Credit payments to local governments are handled similar to the Homeowners' Tax Credits as reimbursements derived from revenue withheld from taxes collected on behalf of the State. This will allow for the proper accounting of these credits in current year end closing reports.

Real Property Exemptions

1. SDAT should uniformly utilize the exemption questionnaire that it developed for the limited special review and apply that questionnaire to all charitable, education and religious exempt accounts within each reassessment cycle.⁵ Failure to affirm an organization's continued tax exempt status would trigger removal of its exemption. This can be accomplished either administratively by SDAT or by specific legislation;
2. For Tax Credits and Exemptions, AWG suggests that local governments have the option of an annual exemption application process if SDAT is able to develop an electronic filing system on its website. This exemption application process would be similar to the Homestead Tax Credit application program developed by SDAT;
3. SDAT should also adopt a rating or "score card" system in all assessment offices to identify new exempt accounts or existing exempt accounts that are marginal in their exempt uses as a means to trigger periodic reviews to ensure the correct classification; and
4. SDAT should develop educational information on real property tax exemptions for distribution to assessment offices, finance offices, exempt organizations and individuals. This material should accompany the annual or triennial questionnaire to all exempt accounts.

THIRD PARTY TAX CREDIT AND EXEMPTION AUDITS

Findings:

The final charge of AWG was to consider the feasibility of, and legal impediments to, SDAT contracting with a third party vendor to perform audits on the accuracy of tax credit and

⁵ Exemption Application <http://www.dat.maryland.gov/SDAT-Forms/church.pdf>
Exemption Questionnaire http://www.dat.maryland.gov/Documents/File03_ExemptQuestionnaire.pdf

exemption calculations. AWG examined the availability of vendors to perform these types of audits. While there are legal impediments preventing a third party vendor from auditing the Homeowners' and Renters' Tax Credit Programs, the Homestead Tax Credit Program and the Enterprise Zone Tax Credit Program could be subject to this type of outside review.

In addition, there are national firms that can physically reassess and evaluate exempt properties.

Potential Solutions/ Recommendations:

1. AWG makes no recommendations to the General Assembly that any of the tax credit programs or tax exemptions should be the subject of an audit by a private business firm.
2. The existing audits by OLA were deemed to be sufficient.

PERSONAL PROPERTY

Findings:

The annual assessment and certification of personal property accounts are not occurring on a timely basis because of staff reductions. However, an online personal property reporting system will be implemented by January 1, 2015 that is expected to improve the timeliness of certifications.

Because some property filers misidentify their local jurisdiction to SDAT, there is a need to verify property locations in order to provide accurate initial certifications to the correct county and municipality.

Potential Solutions/ Recommendations:

Technology

1. Expand the online system, which is currently being developed for single locations business entities, to include all business entities by 1/1/17 if possible;
2. The expanded online system should provide a feature to allow the upload of data from accounting firms, or third party software packages, as well as the ability to retrieve previously submitted returns to update for subsequent years;
3. Consider incentivizing online filing by imposing a fee for paper filings after the expanded online system is fully implemented;

4. Automate the notification process to local jurisdictions of Utility Assessment and Franchise Tax Certification; and
5. Utilize verification tools and software to match property location addresses in order to provide accurate initial certifications to the correct county and municipality.

Outside Auditor

1. Determine the cost and the qualitative and quantitative benefit of a third party auditor to select and audit accounts;
2. Consider a pilot program;
3. Establish an acceptable fee structure for a third party auditor; and
4. Review the need for statutory changes to address confidentiality status of tax return information and responsibility for paying audit fees.

Staffing

1. Establish a review of Best Management Practices for operational efficiencies in assessing personal property to accompany development of new business processes associated with the online filing system;
2. Reevaluate the quantifiable workload for assessors in order to determine how many additional assessors would be needed to meet the December 1 goal for having 90% of the taxable accounts assessed;
3. Compare performance standards for assessors to the goal of timely assessment certifications to local jurisdictions;
4. Hire additional assessors as established by this workload review;
5. Create a dedicated audit unit that works full time on auditing accounts;
6. Create a dedicated position that works exclusively on “discovery” of new accounts; and
7. Hire additional clerical support staff for keypunching, document sorting, and scanning preparation.

2.0 Structure, Organization and Process

Representatives from the Maryland Association of Counties and the Maryland Municipal League recommended members of AWG. Additionally, other members were selected to represent three state agencies and the public. AWG was chaired by the Director of SDAT and included 17 members representing the public, state, local, and municipal governments. To facilitate focus and participation, four subcommittees were formed, one for each key area of the legislative charge: physical inspection, timely pickup, exemptions and tax credits, and personal property. In addition to AWG members, additional participants with interest in assessment administration were added to each AWG subcommittee.

To assist AWG with its work, SDAT retained an outside consultant with Maryland property assessment knowledge, as well as expertise in appraisal, mass appraisal, property tax policy, and implementing property assessment systems in Maryland and other jurisdictions. The consultant advised AWG on assessment matters, including but not limited to presenting an introduction to assessment administration, planning and executing fact finding surveys, meeting with local officials, gathering data, preparing analysis materials, and assisting in the report development.

AWG and its subcommittees met as described in section 5.2 of this report. A familiarization presentation was made to the full AWG regarding third party vendor services, assessment administration, physical inspection and timely pick up, personal property assessment, and tax credits and exemptions. Following each overview presentation, the AWG subcommittees assigned to each of the four topics met to begin their work. Subcommittee members participated in discussions on the subject matter, reviewed various data and survey results, discussed concerns and issues, and suggested possible solutions. To facilitate discussion, each subcommittee appointed their own subcommittee chair. The subcommittees' charge was to identify findings, and suggest solutions and recommendations for the consideration by the full AWG. Each subcommittee could have additional independent meetings or communicate via E-mail.

A working draft of the report was developed based upon AWG and subcommittee discussions. Each subcommittee reviewed the working draft and independently developed recommendations that were reported to the full AWG. AWG then met in working sessions to finalize the report. AWG met for its final meeting on December 4, 2014. There was consideration of a revised StateStat report. Several revisions to the AWG Report were made during this final meeting and a revised report was sent to each AWG member and all participants.

SDAT's Council (Office of the Attorney General) advised each AWG member that should AWG members wish to discuss the final report before voting they could not have more than 8 members in the discussion otherwise they would be in violation of the public meeting law.

Each AWG member individually voted by E-mail sent to Chairman Young. This vote resulted in the adoption of the AWG report on December 12, 2014.

3.0 Assessment Work Group Requirements

AWG was established pursuant to Senate Bill 172 to examine issues related to the property assessment process for both real and personal property and the tax credit programs which the Department is responsible for calculating property tax credits and exemptions

AWG was charged with examining the following issues:

1. Whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;
2. The Department's ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties on the tax roll;
3. The extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and
4. The feasibility of, and any legal impediments to, contracting with a third party vendor to perform periodic audits of the property tax credit and exemption programs for which the Department calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy.

3.1 General Findings and Recommendations

RECOMMENDATIONS

There are three general recommendations made by AWG which apply to all four of the charges studied by the Work Group. These recommendations are:

- SDAT should look at new business processes in an effort to pursue additional efficiencies within the assessment and other administrative processes and determine how technology can be utilized to maximize that efficiency;
- Since local governments are major business partners with SDAT, we recommend that the legislature or Governor consider the creation of an Advisory Council. The Advisory Council would include representatives from SDAT, appropriate state agencies and local governments. In order to assure progress on the implementation of the AWG's recommendations concerning physical exterior inspection, timely pickup, and calculation of tax credits and exemptions, the Advisory Council would meet periodically to discuss issues of mutual interest and concern, including the development of new business processes, the leveraging of new technologies, and matters specifically raised by any partner; and
- Staffing for the assessment, tax credit and exemption functions of SDAT remain a matter of importance, but must be considered in light of new technology and changes to business processes.

4.0 Methodology and Background

The AWG consultant and SDAT staff prepared overview materials, gathered relevant data and conducted surveys necessary for analysis related to each of AWG charges. Numerous overview presentations were developed in order for the members to understand the requirements of state law, the functions of assessment administration, and mass appraisal operations.

Typical preliminary information gathered consisted of:

- prior and current staffing data
- current organizational charts
- current and prior budget data
- parcel counts by type and county
- business process information
- assessment calendar
- personal property entities, sole proprietorships, and certification data
- assessable base reports
- property sales analysis
- building permit data and business process

- assessment ratio reports and data files
- statewide real property sales data
- IAAO 2013 Staffing Survey
- IAAO Mass Appraisal Standard
- market areas , neighborhood analysis and typical sales
- property sketch data and analysis
- cost approach documentation and worksheets
- assessment appeals data
- CORE staffing analysis
- technology alternatives to assist in property inspection
- governing laws and regulations
- StateStat report (a later submission)

Selected key information gathered for AWG included:

1. Relevant property characteristic sample survey;
2. Exemption survey;
3. International Association of Assessing Officers (IAAO) 2013 Staffing Survey and the IAAO Mass Appraisal Standard;
4. SDAT staffing and budget analysis, including work production analysis and comparison with industry benchmarks;
5. County survey on building permits and existing business processes and available technology;
6. Series of meetings with the consultant, SDAT, and selected county officials on building permits and existing technology; and
7. Vendor services regarding technology, audits, and inspection and valuation services (including vendor presentations); and
8. At the time the BRFA language was adopted, SDAT had just begun the StateStat process. StateStat presented a summary of its findings and recommendations to AWG in November and upon review found many of them mirrored those identified by AWG. The StateStat report including SDAT responses has been included in this document in Appendix 6.4.

4.1 Physical Inspections

- The first charge of the work group

Necessity of Physical Inspections: The first AWG charge asks if an exterior physical inspection of each property is necessary to properly assess real property for tax purposes.

By law, SDAT is responsible for the assessment of real property. This includes the discovery, listing and valuation of 2.3M parcels of real property in Maryland on a triennial basis (about 766,000 parcels annually), as well as onsite physical inspections of the properties at least once every three years. If property characteristics are not correct on each property record card, properties may not be properly assessed.

4.1 Physical Inspections

- Property inspection is necessary to insure the relevant characteristics of each property are considered in valuation
- Resources are insufficient to complete an onsite physical inspection for every account as required by law
- The lack of property inspection limits accurate property assessments and impacts taxes

Additionally, SDAT performs many other assessment administration functions throughout each year to maintain the assessment roll. These yearly functions include maintaining ownership information and property transfer information, maintaining tax credit and property exemptions, assisting MDP in maintaining the parcel map data and the statewide geographic information parcel theme for all counties, maintaining individual property record card information on all 2.3M parcels, inspecting and picking up new properties, renovations, and removals on the tax roll for prior, current, and future years, and conducting assessment appeal hearings (26,785 in 2014). Each year this includes sending property reassessment notices, conducting hearings and sending final assessment notices resulting from appeals, and certifying the real property assessment roll to the 24 political subdivisions and the 157 municipalities. Tax roll certification occurs for each annual, supplemental, half year, and quarterly tax levies, as appropriate.⁶

Property Characteristics - Sample Survey: To provide data to assist in the determination of the need for property inspection, a survey of sample properties was conducted in Baltimore City, Allegany, Harford, Howard, St. Mary's and Worcester Counties to identify properties both with and without changes in relevant characteristics. For each property in the sample, the property

⁶ * Appendix Section - 6.1 Legal Requirements

* Maryland State Assessment Administration, http://dat.maryland.gov/Documents/File04_MD_AssessmentAdmin.pdf

* Property Assessment Introduction http://dat.maryland.gov/Documents/File05_AssessmentIntro.pdf

* Assessment Overview - Physical Inspection and Timely Pickup. http://dat.maryland.gov/Documents/File01_Overview.pdf

record card was printed and building permits were checked to determine if any permits applied to the account. Each property in the sample was physically visited and inspected by an assessor. Those properties with changes were identified and a change in value resulting from the characteristic change was calculated.

The survey indicated a need for property inspections to identify property characteristic changes. Of the 1,554 sample properties physically inspected, there were 320 (20%) properties that had changes in property characteristics. Of the total 1,554 accounts, positive changes were found in 267 (17%) properties and negative changes were found in 53 (3%) properties. Only 71 (22%) of 320 accounts with changes had building permits. This indicates a need for physical inspections, as just inspecting accounts with building permits is not sufficient.

Resources for Physical Inspection: SDAT's current level of staffing is not sufficient to conduct an exterior physical inspection of each property at least once every three years, as required by law. The lack of property inspections limits accurate assessments.

Staffing: Current staffing levels and lack of technology are limiting factors in conducting property inspections. Onsite exterior physical inspections for properties in each triennial group without the use of technology would require additional field assessor staff of between 75 and 85 positions. The estimate for additional staff is supported by the IAAO 2013 Staffing Survey.⁷ Complete onsite exterior physical inspections are labor intensive.

There are 746,179 total statewide accounts that will receive reassessment notices by 1/1/2015. Of those accounts, 206,109 (27%) had physical inspections as of 11/1/2014. This was accomplished with additional assessor staff hired in the current and prior fiscal years. Statewide, residential inspections completed were 25 % of total residential accounts and commercial inspections completed were 58 % of total commercial accounts.

Each year there are certain business functions (referred to as CORE Processes in Appendix 6.2) that must be completed. To the extent that the days to complete CORE functions declines or increases, the number of days to complete the physical onsite inspections vary. With existing staff and technology, the annual physical inspection of all accounts cannot be completed as indicated by the data above.

⁷ [Staffing in Assessment Offices in the United States and Canada: Results of 2013 Survey](#) by the Research Committee, IAAO and Lawrence C. Walters, Ph.D., Journal of Property Tax Assessment and Administration, Vol.11 * Number2 * 2014

Staffing and Technology: Current industry standards allow the use of technology for interim off-site remote property inspections with onsite inspections occurring at least once every six years.⁸ Of the several technologies that would aid in inspection, the only one that would not require onsite physical inspection of all properties is oblique aerial photography linked to the AAVS valuation system.⁹ This technology allows verification of building sections, identification of changes, and the remote measuring of properties. This would allow the verification of relevant characteristics and updating changes on many properties without the need for an onsite inspection. Property sales used in valuation, certain appeals, and new properties or those properties having significant changes would still need an onsite inspection, but these could be identified more quickly and would be limited.

AWG reviewed alternative technologies that were presented by the consultant, as well as other technology presentations from several vendors. A pilot test of oblique aerial photography, linked to AAVS, should be conducted to identify typical assessor work production rates and to estimate assessor staffing needs when using oblique aerial photography. This will also assist in determining the appropriate timeframe for physical inspections.

The use of a combination of staffing and oblique aerial photography is not a “one size fits all” for the 24 political subdivision of the state. Those counties with the most difficult staffing problems which limit property inspections are eight of the largest counties (Baltimore City, Anne Arundel, Baltimore, Harford, Howard, Frederick, Montgomery and Prince George’s).

Nine county governments (Baltimore City, Anne Arundel, Baltimore, Frederick, Harford, Howard, Montgomery, Prince George’s and Wicomico) have obtained licensed oblique aerial photography within the last 10 years. This photography is re-flown every two to three years. This technology is being used by various agencies in each of these counties, including local building inspectors, planning and zoning offices, building permit offices, police, fire, and emergency agencies. State agencies also have purchased similar technology or have other GIS technology that is available to assist with performing property assessments. The use of this technology could provide more accurate mass appraisals and enhance uniformity for all payers of property tax. State agencies and local governments should work with SDAT to provide access to this technology.

Even with the use of oblique aerial photography, there will still be a need for additional assessor positions. However, this cannot be accurately estimated until the pilot test is

⁸ IAAO Standard on Mass Appraisal of Real Property (Sections 3.3.4 and 3.3.5) - Assessment Overview- pages 188 to 197
http://dat.maryland.gov/Documents/File01_Overview.pdf

⁹ Assessment Overview pages 117 - 129
http://dat.maryland.gov/Documents/File01_Overview.pdf

completed. Preliminary estimates indicate that 20 to 25 additional positions would be required if oblique aerial photography is used. However, these figures should be revisited at the conclusion of the pilot.

Budget: AWG reviewed Maryland data regarding staffing, real property parcels, parcel counts per assessor, and budget per parcel. Comparison data from other jurisdictions was also reviewed. Essentially, the data showed that Maryland parcel counts per assessor were high and that funding was low. The budget for property assessment administration in the Maryland's largest counties is 45% less per parcel than other comparable jurisdictions in the United States. In midsize counties, it is 38% less per parcel compared to other comparable jurisdictions. In the smallest counties, budget per parcel is appropriate when compared to other comparable jurisdictions.

If Maryland assessment functions were funded at the per parcel levels of comparable national jurisdictions, it would allow for a level of staffing and technology that provides for effective assessment administration and appropriate physical inspections.

Business Process and Business Process Reengineering: Within any organization, management improvements can be made through better communication, documentation of business procedures and processes, and the use of management reports. This is also the case in assessment administration and mass appraisal. SDAT should review current business processes to see if there are opportunities to create efficiencies.

PHYSICAL INSPECTIONS

Findings:

1. As noted in an OLA audit, SDAT does not currently have resources to make an exterior physical inspection of each property at least once every three years, as required by law;
2. The lack of physical inspections impacts the accuracy of property assessments; and
3. An onsite exterior physical inspection, conducted on some periodic basis, is necessary to properly assess real property for tax purposes to ensure that all relevant property characteristics are uniformly considered. Onsite inspections can be supplemented by the use of remote technology.

Potential Solutions/ Recommendations:

The use of technology, new business processes, business process re-engineering, management communication, reporting, and appropriate staffing can improve assessment operations. It is possible for SDAT to increase the number of property inspections by using oblique aerial photography, improving data and business practices, and conducting onsite inspections on a

periodic reassessment basis. A technology pilot project is currently underway that includes remote verifications of property characteristics with existing staff to allow SDAT to determine if there are positive improvements in assessments, as well as identify appropriate staffing levels to complete remote and timely onsite inspections.

AWG is recommending that no statutory changes be made to the timeframe for property inspections at this time. Instead, the issue should be revisited by SDAT at the end of the pilot project and after new technologies and business process changes have been identified.

Technology to Assist With Assessments

1. SDAT should proceed with a pilot test, using oblique aerial photography linked with the AAVS valuation system, to understand the work production and staffing needed for complete remote and onsite property inspection, and should include metrics on efficiency;
2. If the oblique aerial photography pilot project is successful, this technology should then be implemented where appropriate. An Initial analysis indicates this would be in eight of the largest jurisdictions (Baltimore City, Anne Arundel, Baltimore, Harford, Howard, Frederick, Montgomery, and Prince George's Counties) as resources permit;
3. As time and resources permit, SDAT should use the state geographic information system (GIS), ortho photography or oblique photography, and any other appropriate technology with AAVS to improve the assessment process in the remaining local jurisdictions and pursue further enhancements in eight of the largest jurisdictions;
4. Emphasis should be placed on maximizing greater efficiencies of existing technologies which could be accomplished by partnering with state agencies, such as DoIT and MDP, and local governments. SDAT will work to clarify what resources counties have and begin partnerships to ensure local assessment offices are able to access those tools where possible;
5. Local governments with oblique aerial photography should examine their leases for that product and have them amended to provide access to their local assessment office; and
6. An appropriate combination of systems, staffing, and technology is required to insure timely pickup of new property under \$100,000 and to complete the annual property inspection. Unless there are improvements in SDAT's ability to complete physical inspections, issues of incorrect property characteristics will continue.

such as permit tracking, identification of those accounts having an onsite physical inspection and those accounts remotely inspected;

3. Considering the volume of data that is transferred to and from SDAT, a complete information technology business process analysis should be performed in partnership with appropriate state agencies and local governments; and
4. SDAT should periodically re-evaluate existing business processes and develop new business processes as necessary to achieve additional efficiencies.

Staffing

1. The pilot project being performed in Anne Arundel and Frederick Counties using oblique aerial photography should include a study of the appropriate staffing levels needed to complete either onsite or remote inspections for each reassessment cycle. The pilot project should yield performance measures that could be applied statewide. The pilot project should acknowledge and reflect distinct differences between rural, suburban, and urban areas, where possible in order to make the most effective use of the technology;
2. Qualified personnel should be provided to implement appropriate technology, redesign business processes, and provide mass appraisal statistical assistance. This can be accomplished by SDAT employees or outside sources; and
3. Staffing should include trained IT staff, geospatial staff, management, assessors and clerical personnel. Personnel should have appropriate training in technology and business software applications, including statistical software.

Property Sketches

SDAT needs to continue the conversion of paper sketches to digital sketches for the remaining improved residential properties¹⁰

¹⁰ Of 1,668,019 improved residential to be sketched, 1,044,414 (62.5%) have been completed on 11/1/2014. The remaining properties to be sketched are principally in the larger counties where parcel counts per assessor are high.

4.2 Timely Pickup of New Property

- The second charge of the work group

Ability to Maintain Changes to the Tax Roll: The second AWG charge asks - Does the Department have the ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties in the system of accounts?

4.2 Timely Pickup

- New construction pickup requirements
- Other tax roll changes
- County sample results
- Survey of processes and building permit systems

Changes to the tax roll occur daily. There are various types of changes in property status that occur such as ownership, owner mailing address, change in lot size, transfer information, property tax credit or exempt status, property tax classification and use, additions and deletions of real property accounts, including subdivisions and consolidations.

Maryland law provides that new construction, renovations and deletion changes may occur to the tax roll on a full year or half year basis in all counties and in several counties on a quarterly basis (Baltimore City, Baltimore, Charles, Howard, Montgomery, and Prince George’s Counties). For new construction or renovations with a value greater than \$100,000, the pickup occurs at the appropriate tax levy each year regardless of the triennial reassessment group. For renovations under \$100,000, the law requires pickup once every three years during the triennial reassessment cycle. Most often these changes are identified with a completed building permit, certificate of occupancy, or change of use notification forwarded from the appropriate county office. Because some renovations or additions occur with the property owner failing to obtain a permit, an exterior physical inspection is important to identify and value those changes during the triennial reassessment cycle.

The majority of tax roll changes result from new construction, renovation, and demolition that occur throughout the year at the various tax levies. The number of these changes and the amount of change to the assessable base statewide during the last 2.5 are summarized:

| <u>Year</u> | <u>Accounts</u> | <u>Added Assessment</u> |
|-------------|-----------------|-------------------------|
| 2012 | 10,824 | \$ 5,920,899,570 |
| 2013 | 12,588 | 6,234,580,660 |
| 2014* | <u>6,139</u> | <u>3,782,234,100</u> |
| Total | 29,551 | \$15,937,714,330 |

***2014 year not complete and still in progress.*

The current level of assessor staffing requires SDAT to place emphasis on new property pickup rather than performing physical inspections of reassessment properties. This results in fewer

properties being inspected for the triennial reassessment program, especially for properties that do not have building permits.

Changes to the status of accounts on the tax roll include matters of tax classification, exemptions and tax credits. Homestead and Homeowners' Tax Credits are audited and changes are made to the tax roll at the time of a property transfer. If an application for either of these programs is not filed by the new owner attesting that the property is owner occupied and the principle residence (domicile) of the owner, the Homestead or Homeowners' Tax Credit will not be granted. In a typical year, this review occurs on approximately 40,000 owner occupied real property transfers. A reapplication review was recently completed on all 1,200,000 Homestead Tax Credit recipients during the last six years.

Building Permits: A good building permit system is one key to the timely identification of property changes. It is important that local assessment offices receive building permit data from county and municipal governments. A county survey was conducted to gather building permits and other related information: how often delivery of permit information occurred; if the permits were paper, PDF, or in an electronic data file; if the local government had an electronic permitting system with situs address, x-y coordinates, or SDAT account number; and the number of prior years in their permit system. Additional questions included in the survey also asked if they have a GIS geographic information system with parcel theme, ortho imagery, oblique aerial photography, or street view imagery.

To supplement the survey, meetings were held with local Supervisors of Assessments and local officials in Baltimore City, Howard, and Montgomery Counties to document their building permit and related processes. The consultant met with officials from the Maryland Department of Planning and the Maryland Department of Information of Technology to identify existing resources and technologies to better understand their capabilities and determine approaches for leveraging these assets at the state level.

TIMELY PICK UP - MAINTAINING PROPERTY CHANGES

Findings:

1. Outdated technology compromises the physical inspection process in each triennial review;
2. The staffing shortage also compromises the ability to incorporate all changes in property characteristics that may have occurred with or without building permits;
3. In some instances, properties were not properly updated to the tax roll; and

4. There is a lack of feedback on the use and receipt of information that local governments send to SDAT. It is unclear how and if information such as building permits, changes of use, change of address, etc. are incorporated in SDAT's systems and whether they are considered as part of the re-assessment in the current year or in the triennial cycle. Local governments are unable to track what becomes of this data.

Potential Solutions/ Recommendations:

1. Partnerships with local jurisdictions should be developed for effective data sharing. Supervisors of Assessments, local government officials, and SDAT headquarters staff should improve communications by scheduling periodic management meetings;
2. SDAT should, in concert with each local assessment office and applicable county, improve building permit tracking and aggregation, and improve management communication and reporting to ensure timely pickup of new construction, renovations, additions and demolitions;
3. SDAT will develop an electronic system where applicable that provides status updates and reports on building permits, and change of use. This system will enable local governments to track the status of data inputs;
4. Linking of local government vacant and abandoned property files or renovation tax credits would assist in identifying all changes in property value and also assist in the administration of the Homestead Tax Credit;
5. Counties with local real property tax credit programs and vacant or abandoned or uninhabitable property programs shall provide SDAT with files of that data in the most compatible format;
6. Appropriate combination of systems, staffing and technology is required to insure timely pickup of new property under \$100,000 and to complete the annual property reassessment inspections. Unless there are improvements in SDAT's ability to complete physical inspections, issues of incorrect property characteristics will continue; and
7. Some jurisdictions are already providing building and property permits electronically. Jurisdictions without the ability to transmit this data electronically should move towards providing individual property permits through an electronic transmission. Until a county has the ability to do so, it should continue to submit permit information in the manner requested by the local assessment office. Paper or electronic images should be submitted along with data file extracts from those jurisdictions that have automated building permit systems.

4.3 Property Tax Credits and Exemptions

- The third charge of the work group

Discrepancies in Tax Credits and Exemptions:

The third AWG charge asks to examine the extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy.

4.3 Property Tax Credits and Exemptions

- Homeowners' and Renters' Tax Credits
- Homestead Tax Credits
- Enterprise Zone Tax Credits
- Real Property Exemptions

SDAT directly administers three major tax credit programs: the Homeowners' and Renters' Tax Credit Programs, the Homestead Tax Credit Program, and the Enterprise Zone Tax Credit Program. SDAT administers property tax laws that provide exemptions for government, educational, charitable and benevolent, and religious property that is actually used exclusively for the purposes of the exempt organization.

In terms of evaluating any discrepancies in these credits, AWG had available the performance audit on the Homeowners' and Renters' Tax Credit Programs¹¹ and a special audit on the Homestead Tax Credit Program¹² prepared by the Office of Legislative Audits (OLA). Also presented to AWG was a report by the Department of Legislative Services (DLS) on the Enterprise Zone Tax Credit.¹³

For the most part there are only very limited instances in the discrepancies in calculation of tax credits and exemptions. These limited problems were adequately presented in the reports of the Office of Legislative Audits (OLA) and the report by the Department of Legislative Services (DLS). SDAT has already responded to the two reports from OLA.

An important finding by OLA was the lack of auditing of these credits, particularly from 2008 – 2011, which coincided with the loss of significant SDAT staff resources. While the instances of incorrect or improper credits or exemptions were limited, the lack of appropriate auditing could have masked this deficiency. SDAT advises that it is “catching up” on these audits (2011 and 2012) and this information was provided to the OLA on November 12, 2014. There are recommendations outstanding by DLS regarding the Enterprise Zone tax credits that will be

¹¹ Office of Legislative Audits Report – Homeowners' and Renter's Tax Credit.

http://dat.maryland.gov/Documents/File02_TaxCreditsAudit_12_16_13.pdf

¹² Office of Legislative Audits Report - Homestead Tax Credit.

http://dat.maryland.gov/Documents/OLA_Homestead13.pdf

¹³ Department of Legislative Services – Evaluation of Enterprise Zone Tax Credit.

http://dat.maryland.gov/Documents/DLS_EvaluationEnterpriseZone_Taxcredit.pdf

responded to at the initiative of SDAT and DBED to the Co-Chairmen of the Tax Credit Evaluation Committee in December 2014.

Homeowners' and Renters' Tax Credit Programs: SDAT has been administering the current Homeowners' and Renters' Tax Credit Programs since 1978. In fiscal year 2012, (the subject of the audit by OLA) the Homeowners' Program granted approximately \$62.6 million in credits to 52,500 eligible homeowners in the State based upon their combined gross household incomes. The Renters' Program granted \$2.7 million to 8,316 eligible elderly, disabled, and under age 60 renters with a dependent child. For these two types of tax credits, SDAT utilizes its federal income tax database for tax return filers in Maryland to audit the taxable income reported by the applicant. SDAT requires every elderly filer receiving Social Security income to provide a copy of the annual SSA-1099 statement provided to recipients by the Social Security Administration. Every Renters' Credit applicant is required to provide a written statement from the landlord verifying the amount of rent paid. Since 1980, the SDAT has performed on an annual basis four different types of audits it designed for each type of tax credit application. The audits for both Homeowners' and Renters' Credits are: 5% random sample audit of all applications; an audit of any 20% deviation in reported income from the prior year; and the Comptroller's and IRS adjusted gross income match audit. There is also an automated audit of recaptured tax credits by county governments for transferred properties in the Homeowners' Program. It should be noted that SDAT collects back an average of \$550,000 per year from the audits it performs.

The audit of the Homeowners' and Renters' Tax Credit Programs by OLA was just one part of Finding 5, in the December 2013 Performance Audit of all the various programs administered by SDAT. The OLA audit item commented on two matters in the administration of the Homeowners' and Renters' Programs. First, the OLA Audit commented that SDAT had not yet undertaken audits for the two most current years of selected applications received from homeowners and renters who were granted credits. Second, the audit report noted that the OLA had tested 15 homeowners' accounts and found that 5 of the accounts did not have supporting documentation to verify the income reported. For example, an elderly homeowner received a Homeowners' Tax Credit, but she had not supplied a copy of her SSA-1099 Social Security Benefit Statement. The SDAT Tax Credit employee had processed the application without the verification statement because the applicant had a multi-year prior history of supplying the 1099 statements and the employee knew what the Social Security CPI (Cost of Living) percentage was for that year to increase the benefit income reported. Finally, the OLA audit noted that 11 jurisdictions had not submitted monthly electronic copies of recaptured tax credits on transferred properties where unused portions of the credit are repaid to the State.

POTENTIAL SOLUTIONS /RECOMMENDATIONS:

1. SDAT should utilize the two new employee positions it received in this program in the fiscal year 2015 Budget Appropriation to increase the timeliness of tax credit audits;
2. SDAT should electronically scan and index all tax credit applications and attachments to increase the timeliness of tax credit audits; and
3. County governments should be required to submit the monthly report in an automated format for recaptured tax credits due to property transfers, which is one of the major audits performed by SDAT.

Homestead Tax Credits: The Homestead Tax Credit Program that provides for separate State and County caps on assessment increases was the subject of a Special Audit completed by OLA in February 2013.

OLA assigned two audit managers and six full-time auditors for a period of six months to conduct an extensive audit of this program at SDAT's central office and three County assessment offices. The Audit Report does not find any errors in the calculation of Homestead credits, but instead concentrated on certain additional automated audits that could be performed by SDAT to find significant numbers of homeowners not occupying the residential property as their principal residence. An important central finding of this OLA report is that these audits of residency are very labor intensive and that SDAT should make a formal request of the Executive Department and the General Assembly for additional employees to perform these audit functions. In Fiscal Year 2015, SDAT received six additional employees to perform audits for the Homestead Program. SDAT also formally responded to each of the findings in this audit report by submitting the Report to the Joint Chairman on Measures Taken to Ensure Verifiable Compliance within the Homestead Tax Credit Program, submitted on October 31, 2013.¹⁴

In the six years since the General Assembly enacted the Homestead Tax Credit application law, SDAT has received and processed 1.2 million tax credit applications. Each applicant who files a tax return has been compared to SDAT federal income tax database for an address match. When there is no tax return filed, the Department uses an individual manual lookup of the driver's license information in the MVA database. In reviewing the Homestead applications for

¹⁴ Report To The Joint Chairman On Measures Taken To Ensure Verifiable Compliance Within The Homestead Tax Credit Program http://dat.maryland.gov/Documents/HomesteadRpt_JointChairmanfile06.pdf

the six year period, SDAT has removed 45,926 credits and another 65,059 credits were removed for homeowners who did not submit the one-time application. There were another 291,864 property accounts not mathematically receiving a credit that were removed for not submitting an application by the extended filing deadline.

Potential Solutions /Recommendations:

1. SDAT should obtain in an automated format a monthly report from the Motor Vehicle Administration of all drivers' licenses where there is a change of address;
2. SDAT should make available for Homestead audit employees an individual "lookup" service of other financial information to be used in the audit of owner residency for Homestead accounts;
3. SDAT should do a test project with a vendor for an automated review of a meaningful sample of homeowners receiving the largest Homestead credits in each county to verify their continued eligibility; and
4. SDAT should continue its audit of duplicate Social Security numbers annually.

Enterprise Zone Tax Credits

The DLS study on the Enterprise Zone Tax Credit notes that there were news stories about "errors in property tax credits". SDAT observes that there was just one news story that discussed three incorrect property accounts. SDAT was only responsible for one error. This occurred when SDAT incorrectly attributed the percentage of credit to the eligible assessment for two years, which resulted in the business owner receiving a lower credit for those two years.

The other issues raised by DLS were whether SDAT's current tax credit calculation procedures are sufficient to capture an adjustment on successfully appealed accounts, to assign the correct percentage of credit for the appropriate tax year, and to exclude the value of residential property from the credit. The other inquiry from DLS was how SDAT would handle these credits going forward, whether the tax credit data would be standardized in an automated format, and whether additional resources would be needed for SDAT to implement these changes.

Potential Solutions /Recommendations:

1. SDAT should utilize the report writing feature of the AAVS assessment system to prepare three types of information reports (individual property, summary of all properties, and assessment reduction properties) on a quarterly and annual basis to ensure the accuracy of the amounts of assessments for which the Enterprise Zone Tax Credits are granted. The report would be prepared on each individual property, an Enterprise Zone summary of all accounts, and the appealed accounts with assessment reductions. It should be noted SDAT first started preparing these reports after January 1, 2014 when the final one-third assessment group of properties was entered into the AAVS system for the issuance of that year's new reassessment notices. Previously, SDAT has utilized an internal report (AIMS) individually prepared by the local Supervisor of Assessments where the Enterprise Zone was located;
2. AAVS reports should be regularly provided and fully explained by SDAT to the local governments issuing the credits to enable them to perform their own review of the accuracy of the assessments used to grant all new and existing credits. A separate AAVS report should be prepared for local governments that show those accounts where the assessment has been adjusted downward because the business owner has successfully appealed the assessment;
3. AAVS reports on Enterprise Zone Tax Credits should be uniformly prepared by SDAT for all jurisdictions in order to provide complete information when DLS produces future reports on this program;
4. SDAT should hire an administrative level employee to be assigned the full-time duties to oversee the administration of the Enterprise Zone Tax Credits and other business tax credits; and
5. SDAT should adopt new procedures to ensure that local governments receive their Enterprise Zone Tax Credit reimbursements in a timely manner. It should be noted that SDAT will introduce departmental legislation in the 2015 session to clarify this reimbursement procedure. An additional legislative option could be to require that the Enterprise Zone payments to local governments be handled similar to the Homeowners' Tax Credits as reimbursements derived from revenue withheld from taxes collected on behalf of the State. This will allow for the proper accounting of these credits in current year end closing reports.

Tax Exemptions:

The Maryland exemption statute provides that property is not subject to property tax if the property is “actually used exclusively for a charitable or educational purpose to promote the general welfare of the people of the State”. During the last thirty years, SDAT has litigated the legal meaning of what each term in the statute means (i.e. **actually, used, exclusively, charitable, educational, and general welfare of the people**).¹⁵ Similarly, SDAT has litigated the exemption standards for religious groups and whether the property is “actually used exclusively for public religious worship, a parsonage or convent, or educational purposes”. For example, a recognized educational institution that had expended substantial sums for architectural and engineering plans, had met for countless hours with local zoning officials, and allowed students to use the vacant rooms for practice sessions was denied property tax exemption because no building permits for the renovations had been obtained, no construction contracts had been entered into, and no actual construction had begun. *JHP, Inc. / The Johns Hopkins University v. Supervisor of Assessments of Baltimore City*, Md. Tax Court (Case No. 5887 (1-3)) (1988). Similarly, two specific churches that had begun the legal planning process for building new structures on a reserved site in a planned community were both denied property tax exemption because no building permits had yet been obtained and no actual construction had begun. *King’s Contrivance Interfaith Campus v. State Department of Assessments and Taxation*, Md. Tax Court (Case No. 01-Mi-HO-0601) (2002). In 1982, SDAT established the legal principal in the Court of Appeals that “churches, religious institutions, fraternal, benevolent, or charitable groups enjoy no inherent right to exemption from property taxation, for all real property within the State is liable to taxation unless it is expressly exempt”. *Supervisor of Assessments v. Trustees of Bosley Methodist Church Graveyard*, 293 Md. 208 (1982).

In order to test the continued validity of existing property tax exemptions, SDAT assembled a special team of assessing employees (borrowing employees from the central and another office) to physically re-inspect with a site visit all 3,424 properties in Baltimore City, with a total assessable base of \$6.5 billion, that are currently receiving a charitable, educational, or religious property tax exemption. Baltimore City was chosen as the location for this special exemption review because it is the jurisdiction with the largest total number of these types of exemptions in the State. This review was conducted between May 2, 2014 and September 24, 2014.

SDAT sent on May 2, 2014 an individual letter¹⁶ with a specific questionnaire on the back to every owner of an exempt real property advising them that this review was being conducted

¹⁵Property Tax Exemption Overview http://dat.maryland.gov/Documents/File07_Exemption_Overview_9_29_14.pdf

¹⁶Exemption Questionnaire http://dat.maryland.gov/Documents/File03_ExemptQuestionnaire.pdf

and that they had to reapply for the exemption by responding to the questionnaire. The exempt property owners also were advised that SDAT would be visiting each property in the next few weeks to conduct a physical inspection of its actual use.

The mailing list was derived from SDAT's database of properties that have an assessment exemption amount and that also have one of ninety-nine exemption codes that SDAT uses to classify the property by ownership and specific use type (e.g. charitable organization owning a headquarters office building).

SDAT received 2,327 responses to the 3,424 exemption questionnaires it mailed out (68% response). When any exempt property owner did not provide a response, another copy of the letter and questionnaire was hand delivered when the property was physically inspected. An experienced assessor or a new assessor recently hired visited every property and a photograph was taken of the property for entry into SDAT's AAVS system. When a less experienced assessor had a question about the amount or percentage of the property that should continue to receive an exemption, that property was placed on a separate list for immediate further review and inspection by an experienced commercial assessor. SDAT also instituted a new rating or "scoring" system for ranking 90 of those properties where the agency had some concern about the continued viability of the property being used for exempt purposes. This rating system would provide for certain properties to be re-inspected again in the very next year. SDAT has a high level of confidence in the quality of this special exemption review conducted in Baltimore City.

The results of the special exemption review determined which of these properties will continue to be eligible for real property tax exemptions. Of the total of 3,424 properties inspected and reviewed, there were 292 (8.5%) properties that SDAT is removing a complete or partial exemption. It is important to note that these removals were due to changed circumstances in a subsequent year, such as no longer using the property, a lot not being actually incorporated into the larger exempt parcel, or the property is now being rented. These 292 properties had a total assessed value of \$53.6 million which equates to \$1.2 million in additional property tax revenue to the City. It is also significant to note that 10 properties (with very unique circumstances) had \$25.5 million of that \$53.6 million of increased taxable assessment for the City. The exemption review also identified one of the largest exempt property owners in the City, The Johns Hopkins Institutions, which owns \$2.6 billion of the City's total \$6.5 billion exempt charitable, educational, and religious base, as having only 17 properties with an assessable base of just \$180,300 where the exemption is being removed. The exempt review also provided specific information on the 86 vacant land accounts included in the total 292 accounts that are being made taxable because these accounts primarily involved small "lots of

record" that were not included in the larger exempt parcels. These 86 accounts have a combined assessed value of \$1.39 million which equates to total new taxes of \$31,247 for the City. Similarly, there are 63 improved properties that are now vacant and boarded that collectively add \$2.6 million in assessable base for \$59,682 in additional revenue for the City.

(See 2014 Exemption Review Project - Baltimore City on the following page)

2014 Exemption Review Project - Baltimore City

| <u>OVERALL REVIEW TOTALS</u> | Total Exempt Properties Reviewed | Total Exempt Properties Approved | Total (Net) Changed as a Result of Review | Changed From Fully Exempt to 100% Taxable* | Partial Exemption was Reduced* | Changed From Partial Exemption to 100% Taxable* | Total Accounts Flagged to Monitor ** |
|-------------------------------------|----------------------------------|----------------------------------|---|--|--------------------------------|---|--------------------------------------|
| Total Accounts | 3,424 | 3,132 | 292 | 250 | 31 | 11 | 90 |
| Total Added to Taxable Base | | | \$53,574,900 | \$41,189,100 | \$10,121,844 | \$2,263,956 | |
| Total Value In Assessment Base | \$6,528,869,400 | \$6,402,014,100 | \$126,855,300 | \$41,189,100 | \$79,017,200 | \$6,649,000 | \$197,688,600 |

* The Assessment Base and accounts reflected in these columns are included in the total base figures and accounts reported in the Total Exempt Properties Reviewed and Total Changed as a Result of Review totals.

** The Assessment Base and accounts reflected in this column is included in the total base figure and accounts reported in the Total Exempt Properties Approved total above.

Note that the \$53,574,900 addition to the Taxable Base for all 292 properties will produce \$1,204,364 in City property tax revenue.

OTHER IMPORTANT FINDINGS

| | Changes that were Fully Exempt determined to be taxable that were Land Only **** | Changes that were Fully Exempt determined to be taxable that were Improved Vacant & Boarded | Changes that were Fully Exempt determined to be taxable that were less than or equal to \$20,000 in Taxable Value | Changes that were Fully Exempt determined to be taxable that added more than \$1,000,000 in Taxable Value | Accounts listed Under Johns Hopkins Ownership with Exemption Loss | Accounts listed Under Johns Hopkins, FSK, & Broadway Ownerships with Exemption Approved | Accounts that Increased in Percentage Exempt as a result of review |
|--------------------|--|---|---|---|---|---|--|
| *** Total Accounts | 86 | 63 | 133 | 11 | 17 | 106 | 2 |
| *** Total In Base | \$1,390,000 | \$2,654,900 | \$604,100 | \$27,157,520 | \$180,300 | \$2,606,645,100 | \$736,180 |

*** The base numbers reflected in these columns are included in the total base figures and accounts reported in the Overall Review Totals above.

**** The Land Only accounts reported above may have had some improvements such as fencing or paving, but would not have included any accounts that were leased or used as parking.

Important Notes:

- 3 of the largest changes were leases discovered that included a parking lease with Baltimore City Gov't, Production lease with HBO / VEEP, and a former college that is now leased to a for-profit university
- 2,327 Exemption Questionnaires were initially returned as a result of SDAT's May 2014 mailing.
- 90 approved properties were flagged in SDAT's system in order to monitor them next year due to their marginal status.
- All properties were physically inspected and a photograph taken to be included in SDAT's AAVS system.

SDAT presented to AWG specific information about the numbers and total assessable base for currently exempt properties in the 23 remaining counties in the State.

SDAT also discussed how different Supervisors of Assessments in the counties had conducted their own independent reviews of certain exemptions. For example, the Supervisor of Assessments for Montgomery County sent out an application to all of the churches in the county to reapply for their exemption because the churches had not been reporting the significant amounts of revenue they are receiving for renting out space in the church to cellular companies for cell towers. Similarly, two years ago, the Supervisor of Assessments for Anne Arundel County reviewed every disabled veteran's exemption in that county because of concerns about the quality of certain information on the exemption application form that was certified by the regional office of the U.S. Veteran's Administration.

Potential Solutions /Recommendations:

1. SDAT should uniformly utilize the exemption questionnaire that it developed for the special exemption review and apply that questionnaire to all charitable, education and religious exempt accounts within each reassessment cycle. Failure to affirm an organization's continued tax exempt status would trigger removal of its exemption. This can be accomplished administratively by SDAT or by specific legislation;
2. The AWG suggests that legislation provide local governments with an optional annual exemption process if SDAT is able to develop an electronic filing system on its website. This exemption application process would be similar to the Homestead Tax Credit application program developed by SDAT;
3. SDAT should also adopt a rating or "scoring" system in all counties to identify new exempt accounts or existing exempt accounts that are marginal in their exempt uses as a means to trigger periodic reviews to ensure the correct classification; and
4. SDAT should develop educational information on real property tax exemptions for distribution to assessment offices, finance offices, exempt organizations and individuals. This material should accompany the annual or triennial questionnaire to all exempt accounts.

4.4 Third Party Audits of Tax Credits and Exemptions and Other Functions

- The fourth charge of the work group

THIRD PARTY AUDITS OF TAX CREDITS AND EXEMPTIONS:

The fourth charge of AWG focuses on the feasibility and legal impediments for SDAT to contract with a third party vendor to perform audits and whether contracting with a third party audit would improve the accuracy of property tax credit and exemption calculations or other functions performed by SDAT.

4.4 Third Party Audits and Personal Property

- Tax Credits and Exemptions
- Personal Property
- Third Party Audits

AWG started by examining whether there are third party or private vendors that can either administer or audit each of the tax credit programs or exemption calculations.

AWG has determined that there are legal impediments preventing a vendor from administering or auditing the Homeowners' and Renters' Tax Credit Programs. Because SDAT regularly utilizes confidential Federal Tax Income information in the processing of these two credits, the Internal Revenue Service law specifically prohibits outside third party access to its data that is in the possession of an authorized State Government user, such as SDAT.

SDAT has learned that there is at least one private vendor that audits other States' business tax benefits (e.g. industrial bonds) similar to Maryland's Enterprise Zone Tax Credit. The company would be able to audit SDAT's calculation of the eligible assessment for the credit as well as reviewing DBED's requirement on the number of new jobs created by a particular business receiving the credit. Again, DLS has issued a major report on the Enterprise Zone property and income tax credits administered by SDAT and DBED, respectively.

There are at least three national firms that do review Homestead applications for local county assessing authorities throughout the country. However, these firms do not conclusively determine that a Homestead credit should be removed on a particular property but instead provides additional information on which the governmental assessing authority can conduct a further investigation before making a decision to remove the credit eligibility. No change in the law would be required to have a third party vendor perform this audit. However, the OLA already performed a comprehensive six month audit by 8 full-time auditors of the Homestead program in February of 2013. SDAT also provided a report to the Joint Chairman on October 31, 2013 responding to each finding in that audit report. OLA's special audit report advised SDAT to make a request for additional employees because of the labor intensive nature of examining these applications and to perform certain additional automated audits.

Regarding real property tax exemptions, one of at least three national firms that physically reassess real properties at a cost of \$40 to \$100 per parcel could perform an audit of these exemptions only after a complete understanding of the legal requirements and case law standards for granting real property tax exemptions in Maryland. However, a review of an exempt property still requires a physical inspection of the subject property and an assessment valuation of the exempt and non-exempt portions of the property. Of course, SDAT's special exemption review in Baltimore City may make this matter a moot point.

1. AWG makes no recommendations to the General Assembly that any of the tax credit programs or the tax exemptions should be the subject of an audit by a private business firm; and
2. The audits by OLA were deemed to be sufficient.

Personal Property

In contrast to real property, which is valued at least once every three years, tangible business personal property is valued every year for tax purposes. All legal entities (corporations, limited liability companies, limited partnerships, sole proprietorships, etc.) must file personal property returns (known as Form 1) with SDAT whether they own property or not. Sole proprietorships and general partnerships must file a return (known as Form AT3-51) only if they possess (own, lease, rent, use or borrow) business personal property or need a business license.¹⁷

Businesses must file the tax return by April 15 (extensions of the filing deadline until June 15th can be requested) reporting personal property located in Maryland on January 1 of each year (known as the "date of finality"). This important date is used to determine ownership, location, value, and liability for tax purposes. SDAT should utilize verification software to match property location addresses with physical locations in order to provide correct initial certifications to the county and municipality.

In Maryland, there is a unique relationship with the State's chartering and personal property tax filing functions. Both functions are the responsibility of SDAT. Legal entities forming or qualifying to conduct business in the State must obtain a SDAT identification number at the time of formation, whereas Sole Proprietorships and General Partnerships receive an identification number when an application is accepted. The Personal Property Division uses the same database to identify businesses required to file a Personal Property Return.

¹⁷ Personal Property Overview http://dat.maryland.gov/Documents/File08_Personal_Property_Overview_9_15_14.pdf

All active entities are mailed tax booklets in February and tax returns are due annually on April 15 (or June 15 if extended). Tax returns requiring a filing fee of \$300 are mailed by tax filers to a lock box processing center. SDAT utilizes the State Treasurer's Office (STO) lock box contract currently with Citi Bank to process the large volume of cash receipts. The tax filings are returned to SDAT within two to three weeks. Additional processing time is required for returns that do not pass lock box valid edits.

Assessment: Completed assessments are certified to appropriate counties and municipalities twice each month beginning in June of the filing year. The assessors' role in the assessment of personal property is extensive. Prior to entering an assessment on the tax roll, assessors perform the following functions:

- Review returns and supporting financial documents
- Validate category selections
- Allocate value to the proper county and municipality
- Review manufacturing exemption applications and provide recommendations for supervisor approval
- Review charitable, educational, or religious exemption requests and provides detail to supervisor
- Process amended returns

Additionally, the duties of assessors include:

- Handling first level appeals
- Answering correspondence, phone calls, e-mails
- Explaining personal property laws, procedures, and policies to taxpayers, local officials, preparers, and the public
- Revising data system information (MBES), Federal Business Codes, Federal Employer Identification Number, assessor alerts and entity notes
- Staffing the public counter
- Conducting assessment audits as assigned

Staffing: A proper level of assessor staffing is essential to the assessment process. For timely certifications, assessors must complete assessments through the automated personal property assessment system. In recent years, as annual filing of personal property returns increased, there was a significant growth in the average workload per assessor. As these filings increased, there was a reduction in assessor staffing along with the loss of experienced assessors and managers. The average assessment assignment has increased from 10,730 returns in 2007 to

18,692 in 2013 per assessor. As a result of this growth, there has been a reduction in the number of accounts processed and assessed in the period between April 15 to December 1 of each year. The percentage of accounts reviewed and completed during this period has dropped from 96.60% in 2007 to 82.39% in 2013.

SDAT utilizes a discovery process that matches its records against the Comptroller's files to identify accounts that are not filing required personal property returns. Businesses in specific counties are selected annually for review and involve mailing questionnaires to businesses that do not appear on the SDAT's records regarding their business activity in Maryland.

SDAT also maintains an Audit Unit that verifies the accuracy of both filed returns and processed assessments. Businesses are selected that may have under reported personal property on the Form 1 or have been under assessed.

In recent years, as staff workload increased, SDAT reallocated employees from the audit and discovery units to the assessment and certification process. However, the 2013 audit of the Personal Property Division by OLA recommended SDAT revive and expand the Discovery Project and complete abbreviated audits for 2011, 2012 and 2013 returns and full audits for the 2014 returns, even though staffing level has not increased. These recommendations will place additional time constraints on completion of the core assessment functions and slow certification of values to counties and municipalities.

Online Filing: SDAT is currently developing an online Personal Property Return filing system with payment processing for the returns due on April 15, 2015.

This project will initially allow:

1. Real-time submission of personal property tax filings by businesses in Maryland;
2. Capturing , storing and transmitting business personal property filing submissions; and
3. Allow electronic payments.

The enhanced goals of this project are to:

1. Improve customer service by enabling customers to file and pay for Personal Property Return filings online through the Internet;

2. Improve and enhance web services to SDAT customers through interactive web systems;
3. Eliminate rejected filings by automating error checking during the online filing process;
4. Improve business processes, operations, and customer service through the effective use of web technologies;
5. Improve the timeliness of the assessment certification process to counties and municipalities; and
6. Redirect staff resources to the discovery and audit programs.

These goals will require a multi-phase approach and not all goals will be fully implemented for the April 15, 2015 filings.

Personal Property Third Party Audits: A presentation was made by Tax Management Associates, Inc. to AWG proposing the use of a third party vendor to aid in the discovery of missing tax filers and auditing existing tax returns. These services are considered as an enhancement to current SDAT staff and would aid in the ability to meet compliance and training goals, and may provide additional assessments to counties and municipalities.

Some concerns regarding a third party auditor were raised. These concerns included the need for a change in the existing statute regarding access to confidential tax information, project costs, project funding, and determining which jurisdictions might benefit from such a program.

PERSONAL PROPERTY

Findings:

The annual assessment and certification of personal property accounts are not occurring on a timely basis because of staff reductions. However, an online personal property reporting system will be implemented by January 1 of 2015 which is expected to improve the timeliness of certifications.

Because some property filers misidentify their local jurisdiction to SDAT, there is a need to verify property locations in order to provide accurate initial certifications to the correct county and municipality.

Potential Solutions/ Recommendations:

Technology

1. Expand the online system, which is currently being developed for single locations business entities, to include all business entities by 1/1/17 if possible;
2. The expanded online system should provide a feature to allow the upload of data from accounting firms, or third party software packages, as well as the ability of filers to retrieve previously submitted returns in order to update returns for subsequent years;
3. Consider incentivizing online filing by imposing a fee for paper filings after the expanded online system is fully implemented;
4. Automate the notification process to local jurisdictions of Utility Assessments and Franchise Tax Certifications; and
5. Utilize verification software to match property location addresses with physical locations in order to provide initial certifications to the correct county and municipality.

Outside Auditor

1. Determine the cost and the qualitative and quantitative benefits of a third party auditor to select and audit accounts;
2. Consider a pilot program;
3. Establish an acceptable fee structure for a third party auditor; and
4. Review the need for statutory changes to address the confidentiality status of tax return information and the responsibility for paying audit fees.

Staffing

1. Establish a review of Best Management Practices for operational efficiencies in assessing personal property to accompany development of new business processes associated with the online filing system;
2. Reevaluate the quantifiable workload for assessors in order to determine how many additional assessors would be needed to meet the annual December 1 goal of having 90% of the taxable accounts assessed;
3. Compare performance standards for assessors to the goal of timely assessment certifications to local jurisdictions;
4. Hire additional assessors as established by this workload review;
5. Create a dedicated audit unit that works full time on auditing accounts; and
6. Create a dedicated position that works exclusively on “discovery” of new accounts; and hire additional clerical support staff for keypunching, document sorting, and scanning preparation.

5.0 Members and Meetings

AWG members represent state, county, and municipal government from agencies involved with assessment and property tax administration as well as public members.

5.0 Members and Meetings

- 17 AWG Members and 16 Participants
- 10 Full AWG Meetings
- 21 Total AWG and Subcommittee meetings

- Robert E. Young, Director, State Department of Assessments and Taxation Chairman
- Joseph Beach, Director of Finance, Montgomery County
- Jason M. Bennett, Director of Finance, Allegany County
- Martha Bennett, Finance Administrator, Ocean City
- William Burgee, Director Property Acquisition & Relocation, Baltimore City
- Jim Cannistra, Maryland Department of Planning
- Jim Francis, Maryland CPA Association, Public Member
- Barry Gardner, Retired Northrop Grumman, Public Member
- Kathryn L. Hewitt, Treasurer, Harford County
- Steve Horn, Director Planning, Zoning & Development, City of Westminster

- Ken Miller, Maryland Department of Information Technology
- Nadya Morgan, Asst. Commissioner of Code Enforcement, Baltimore City (Housing)
- Wesley Shaw, Department of General Services, Baltimore City
- William Voorhees, Department of Finance, Baltimore City
- Mark Vulcan, Maryland Department Business and Economic Development
- Linda Watts, Assistant Director of Finance, Business, and Customer Service, Howard County
- Jeff Williams, Treasurer, City of Greenbelt

5.1 Participants

Participants are individuals who are not members of AWG, but have an interest in assessment and property tax administration and who participated in meetings of AWG or its Subcommittees

- Brian Berg, Dept. of Finance, Baltimore City Government
- Tom Curtin, Maryland Municipal League
- Mike Coveyou, Montgomery County
- John David Evans, Baltimore City Government
- Hayley Evans, Public
- Mary Pat Fannon, Baltimore City Government
- Amber Ivey, State Stats – State of Maryland
- Andrea Mansfield, Maryland Association of Counties

- Thomas Pirritano, Baltimore City Government
- David Ryker, Baltimore City Government
- Craig Biggs, SDAT
- Owen Charles, SDAT
- Charles Cluster, SDAT
- Joe Glorioso, SDAT
- Michael Griffin, SDAT
- David Lyon, Counsel to SDAT
- William Henry Riley, Consultant

5.2 Meetings

AWG and subcommittees met on the following dates:

| | |
|--------------------|---|
| June 17, 2014 | Preliminary Review |
| July 28, 2014 | 1st Meeting – Full AWG Vendor presentations & subcommittee assignments |
| August 26, 2014 | 2 nd Meeting - Full AWG Assessment overview, physical inspection & timely pickup presentations |
| September 15, 2014 | 3 rd Meeting- Full AWG Personal Property Overview Presentation Subcommittee work session - physical inspection & timely pickup |
| September 29, 2014 | 4 th Meeting - Full AWG Tax Credit and Exempt Property Overview Presentation Subcommittee work session - physical inspection & timely pickup |
| October 17, 2014 | 5 th Meeting – Full AWG Subcommittee work session - physical inspection, timely pickup, and tax credit and exempt property |
| October 20, 2014 | 6 th Meeting – Subcommittee meeting only Subcommittee work session – personal property |
| November 7, 2014 | 7 th Meeting – Full AWG - Draft Working Document Review StateStat presentation Subcommittee work sessions on findings and recommendations |
| November 13, 2014 | 8 th Meeting – Full AWG Final Draft Working Document Session |
| November 24, 2014 | 9 th Meeting – Full AWG Final Draft Working Document Session |
| December 4, 2014 | 10 th Meeting – Full AWG Final Work Session Meeting Full AWG consideration of the December 2 revised StateStat report Full AWG consideration of the revised AWG final report |
| December 12, 2014 | Final Report Adoption - Each AWG Member individually voted by Email |

6. 0 Appendix

6. 1 Legal Requirements

The state constitution requires that “like property is assessed alike”. The job of the assessor is to discover, list, and value all property within each jurisdiction.

Various documents and data were prepared for AWG to understand the assessment process and requirements for good assessment administration. Several presentations were prepared, including (1) an overview of the Maryland state assessment system; (2) an assessment introduction; and (3) an assessment overview related to physical inspection and timely pickup. This provided each AWG member key information to better understand the entire AWG study and more specifically for the benefit of the Physical Inspection and Timely Pickup Subcommittees.

The assessor **discovers** all property for inclusion on the tax roll, **lists** relevant property characteristics of each property, and **values** each property for ad valorem (according to value) purposes. Maryland law requires that real property must be physically (exterior) inspected and valued at least once every three years. Thus, each county is divided into three triennial groups. Each year, one triennial group is to be inspected and valued with assessment notices mailed in December. Property owners may appeal their property assessment and those appeal hearings are held typically in the winter or spring following the mailing of assessment notices.

6. 2 CORE Processes

The key annual CORE processes of an assessment office which impact operations were presented to AWG.

The CORE functions include:

1. maintaining the tax roll, timely entering all property classification information (use, tax credits and exemption), ownership and mailing addresses, and real property transfer information;
2. maintaining parcel map revisions (subdivisions, combinations) in cooperation with MDP and adding new accounts to the tax roll;

3. inspecting, picking up and adding to the tax roll new property improvements and demolitions for full year and half year levies for all counties, as well as quarterly levies for six counties (Baltimore City, Baltimore, Charles, Howard, Montgomery, and Prince George's Counties);
4. maintaining property record cards data and sketches;
5. conducting reassessment valuation analysis including inspecting properties that have sold, valuing properties, and conducting assessment performance analysis (ratio studies, edit and reviews) before the mailing of assessment notices; and
6. conducting assessment appeals at the Supervisor, Property Tax Assessment Appeals Boards, and Maryland Tax Court levels.

In a CORE process work production analysis, there are a certain number of workdays each year for assessor and clerical employees to accomplish the required work.

All CORE functions must be accomplished and the total work days needed to do this work are estimated. This is done through a work production and staffing analysis. After the determination of CORE Days, the Remaining Days (total days less CORE) are those days available to conduct physical property inspections. If the Remaining Days are insufficient to complete the physical inspections, then these physical inspections are compromised. To the extent that assessment appeal days might be high or new property pickup is heavy, there are fewer Remaining Days for reassessment physical inspections for that year. Understaffing (resulting from retirements and vacancies) can seriously impede CORE processes and reassessment reviews.

Real property markets and real property values are constantly changing. Thus, a frequent review and valuation cycle is considered best for uniform assessment (like properties assessed alike). This is why Maryland has the triennial assessment cycle.

Assessors are mass appraisers and follow the mass appraisal process. For accurate property values, all relevant property characteristics must be considered. Because property owners make changes to property (renovations/additions/demolition), relevant characteristics change. To properly assess the property, these changes must be correctly listed on each property record. If not, properties would not be assessed accurately.

Having a property sketch is a key ingredient in identification of the property characteristics including its size, shape, sections and dimensions. It is a key factor used in field inspection or

change detection when using aerial imagery. The jurisdictions with the most remaining sketches to be entered are those large counties where staffing has been a challenge. SDAT should use paper sketch records and digitize those properties when changes occur or as time permits with existing staff.

The identification of each property's current property characteristics is accomplished by an exterior physical inspection at least once every three years, as required by law. Identifying relevant changes can be assisted through the use of good building permit systems that include certificates of occupancy and "change of use" information. Similarly, officials from jurisdictions with vacant and abandoned property or homestead property programs may provide relevant information about those properties to the assessor.

Property owners make changes without building permits. Industry standards and technology now allow for remote property inspection as a supplement to onsite inspections. This allows the assessor to verify with reasonable accuracy that the property characteristics are correct, to adjust the record for minor changes, and to identify those properties with major changes that need an onsite inspection. This allows for improved work production, higher assessment quality, and a timely mass appraisal process. After verifying and updating each property record for changes, the properties are valued through mass appraisal techniques.

SDAT uses recognized methods and techniques to produce credible mass appraisals. These mass appraisal methods consider the traditional approaches to value (cost, sales, and income approaches). The mass appraisal models used by SDAT allow for uniform treatment so that "like properties are assessed alike".

Some suggest that properties should be assessed exactly at sale price. Sale prices are facts while value is an opinion of the worth of something. Since property sales are a small percentage of total properties and all properties are not alike, arms-length sale transactions are used to calibrate mass appraisal models which allow similar properties to be valued uniformly. Because of this, assessor's value estimates may not equal exact sale prices.

Others suggest that SDAT does not need to use the recognized methods and techniques of mass appraisal along with the traditional approaches to value. Rather, an indexing update of assessments would suffice. It is further suggested assessing staff can be reduced by using indexing. However, there are inherent problems associated with assessment indexing. Indexing does not provide stability in assessment models from year to year. Indexing magnifies dispersion of assessment and creates greater non-uniformity of assessments. If neighborhoods are not properly stratified and indexes are not properly analyzed, major assessment errors can occur. Indexing using national house-price surveys only provide indexes of changes in house prices from one period to the next (typically, one year to the next) for large geographic areas.

National indexes are not specific to assessment neighborhoods, models or construction styles, and do not consider the prior level of assessment as compared to current sales prices. The use of indexes is fraught with problems that lead to inaccurate assessments for tax purposes.

Owners are afforded the right to appeal their assessment if they do not believe it is correct. The assessment notice asks property owners if they want to appeal the assessed value which is the basis for the property tax. Each assessor spends considerable time in preparing and hearing assessment appeals. This is a CORE requirement that takes away from the time to conduct annual revaluation physical inspections.

6.3 Assessment Ratio Studies

Assessment Ratio Studies:

Assessment Ratio Studies have various and important uses in assessment administration as described in mass appraisal texts and IAAO technical standards. Assessment ratio studies are used throughout the mass appraisal process as a performance measure. They are used to test the level of assessment before reappraisal, test the performance of the reappraisal following valuation, and for management oversight. Ratio Studies measure the level of assessment and the uniformity of assessments.¹⁸

Some have indicated that the assessments of non-owner occupied properties vs. owner occupied properties within certain jurisdictions are not uniform. Assessment ratio data for these types of properties does not indicate a pattern of non-uniformity.

Similarly, SDAT ratio reports by year show acceptable results. There is no such thing as perfect assessments where all properties are assessed at 100% of market value or 100% of sale price. However, mass appraisal models used by assessors should, with reasonable accuracy, represent the relationship between property value and supply and demand factors, to produce a credible opinion of value.

¹⁸ Ratio Studies

<http://dat.maryland.gov/Pages/Statistics-Reports.aspx> (See Ratio Report Survey)

6.4 StateStat Report of Findings, Conclusions, and Recommendations

StateStat Report- Findings, Conclusions, and Recommendations (SDAT Responses are underlined)

At the time the Budget Reconciliation and Financing Act language was written, SDAT had just begun the StateStat process. AWG included these recommendations based on the outcome of the StateStat process.

Property Inspection

StateStat Findings (Staffing):

1. As of December 31, 2013, SDAT had a vacancy rate of 9.1 percent or 54 positions, which included Assessor I positions that the Department needed to fill in order to complete property inspections and other core job functions. StateStat worked with the Department to create a staffing plan to reduce the vacancy rate, prior to the addition of 25 positions added in FY15. Currently, SDAT has 39 vacant positions and 17 of those positions are being held for turnover (2.8 percent). Four of the vacancies are assessor positions and two are assessor supervisory positions.

SDAT's Response: Prior to the start of the StateStat process, SDAT already had in place its own staffing plan for the July 1, 2014 fiscal year to reduce the vacancy rate for Real Property Assessors.

2. Based on the OLA December 2013 report, SDAT was concerned that it was unable to complete property inspections required by law due to the reduction of 78 assessors since fiscal 2002. As of FY2015, SDAT is staffed to 93 percent of the FY08 ("Great Recession") staffing levels. This growth is attributed to a fiscal 2015 allowance that includes the addition of twenty-five authorized positions. Of those positions, fifteen are designated for the Real Property Valuation unit, nine positions for the Tax Credit Administration, and one position for the Office of Information Technology.

SDAT's Response: The StateStat analysis here is incomplete because it does not consider the large number of assessor positions the Department lost in two earlier Administrations between fiscal years 2002 to 2006, and it does not factor into account the 309,493 new property accounts created between fiscal years 2002 to 2012, which equates to an additional 25 assessor positions under the triennial assessment.

3. SDAT has a large number of employees who are ready for retirement. Currently 24 percent of SDAT's workforce have been employed for 30 years or more, while 17 percent have been

employed for five or less years. Forty-one percent of SDAT's workforce are 55 years or older, while seven percent are 30 years or younger. SDAT currently has 37 "critical" positions that can retire immediately and 51 "concerned" positions that can retire immediately.

4. Anne Arundel, Carroll, Dorchester, Garrett, Talbot, Worcester, and Baltimore City are the jurisdictions that SDAT determined as having major staffing concerns.

SDAT's Response: Due to receiving 30 new assessor positions in fiscal years 2014 and 2015, SDAT has increased assessor staffing in the Anne Arundel, Carroll, and Baltimore City offices. The Dorchester, Garrett, Talbot, and Worcester offices are adequately staffed currently but cannot lose any positions because of the small, fixed size of the staff in those offices.

5. The Supervisors of Assessments at the local offices were unaware of the overall focus of the Department as it relates to succession planning and which positions in their offices are going to be filled or left vacant.

SDAT's Response: The Department's central administration maintains the formal succession plan but local Supervisors of Assessment already have input into that process by providing to the State Supervisor and Area Supervisors by identifying specific employees within that office leaving employment in the next three years and their proposed replacements.

Potential Solution/Recommendation:

A detailed staffing plan for the remainder of FY15 should be the Department's short-term focus and should detail the plan for SDAT to meet its required five percent vacancy rate, include a complete succession plan for all critical and concerned positions, and identify a plan to reduce assessor turnover. In the long-term, SDAT should focus on a department-wide staffing initiative that includes 1) maintaining the vacancy rate through monitoring positions and budgets, 2) creating a succession plan that covers the next three fiscal years, and 3) decreasing the Department's turnover rate by division as well as by position.

Although leadership at SDAT headquarters are working on succession plans, supervisors at the local assessment offices are unaware of the Department's focus. SDAT should work with representatives from each region to include key individuals in the Department's overall succession planning. Supervisors of Assessments work directly with staff and are needed as partners to ensure succession planning is succinct and accurate.

Within the next five years a large proportion of SDAT's staff, along with their expertise and knowledge will no longer be available to the Department due to retirement. Creating business processes to retain this knowledge and ensure the knowledge is transferred to new employees is key for the Department to continue its work seamlessly. The Department should develop management tools to assist with the transfer of knowledge once key individuals in critical positions become eligible for retirement. This should include handovers of important documents that may be on zip or hard drives as well as "exit surveys" to ensure that the Department does an effective knowledge transfer prior to an individual leaving a position.

StateStat Findings (Infrastructure):

1. SDAT has computers at headquarters that are 8 to 14 years old while real property computers are between 8 to 12 years old. All of Real Property's computers are running on Windows XP and some computers at SDAT headquarters are still using Windows 2000. Microsoft no longer provides support of Windows 2000 as of July 13, 2010 and Windows XP as of April 8, 2014. Therefore no more security updates or technical support for the Windows XP operating system will be available to SDAT.

SDAT's Response: In fiscal year 2014, SDAT began replacing these older computers.

2. SDAT has been flagged for IT security issues on previous Office of Legislative Affairs audits, which were corrected following the audits. Due to the lack of technical support for SDAT's current operating systems, the absence of security updates will leave computers vulnerable to Malware and other attacks.

SDAT's Response: SDAT has contracted with a major vendor to maintain our firewall. This contractual agreement provides for certain protections (Malware viruses, hacking, etc.) for anything entering or exiting our network. While SDAT intends to upgrade all PCs within the next year, the firewall is there to protect existing older PCs.

3. Issues with technology as it relates to infrastructure were brought up due to the inability of SDAT's current devices when handling some of the technologies available through DoIT. For example, DoIT discussed completing a WebX on the current Finder program to train the 24 jurisdictions on its usage; however SDAT stated during StateStat meetings that they had concerns with delays when participating in WebX and that system become slow when accessing certain websites.

SDAT's Response: This is the first time that StateStat brought up this issue with Web X to SDAT. The Department submits that it has successfully used Web X in numerous offices.

and the Department's IT unit could have utilized it in any office if they were made aware of a problem.

4. In order to implement the Pictometry pilot SDAT had to bring in recycled central processing units and added monitors to help improve the efficiency of the assessors during the pilot.

SDAT's Response: The Department submits that this use of recycled CPUs with better processors and memory was an efficient use of resources from a sister agency. This equipment also enabled SDAT to have dual monitors for the pilot project.

5. SDAT submitted an inventory of each circuit id and the internet speed available at each local office. Some local SDAT offices are still experiencing slow internet due to fiber not being available in certain office complexes.

SDAT's Response: This is outdated information from StateStat. SDAT has installed new fiber in all but 3 Assessment Offices and DoIT is working with the Department to install fiber in those last offices. Those last 3 offices have experienced no slowness problems.

Potential Solution/Recommendation:

Microsoft encourages users to migrate to modern operation systems or the systems will be vulnerable to Malware and virus attacks. SDAT should work with DoIT to determine a security fix in the event the Department is unable to update its current infrastructure (Windows XP and/or Windows 2000). SDAT must create a plan within its current allocated budget to update its technological infrastructure. Prior to the implementation of new technologies, SDAT must build its capacity both at headquarters and in the local assessment offices.

StateStat Findings (Technology):

1. DoIT has access to technologies that are already funded and can be used in conjunction with other methods to allow SDAT to complete cost efficient physical inspections of Maryland properties.

SDAT's Response: The DoIT technologies have ortho imaging which has limitations on its value for performing physical inspections.

2. The majority of the county offices have some type of imaging technology that is currently available for use by some local SDAT offices.

SDAT's Response: Only nine counties have the aerial oblique photography that can be used to replace physical inspections. The other imaging technology has very limited applicability to performing real property assessments.

3. SDAT, MDP and DoIT on March 26, 2014 to discuss current and potential technologies which led to the implementation of the current Pictometry pilot.

SDAT's Response: SDAT began the discussions with Pictometry ten months earlier in July 2013 which was well before the Department's first StateStat meeting. StateStat was helpful in the Department's development of the pilot project.

4. All seventeen jurisdictions who responded to the SDAT survey sent out by MaCO reported they have GIS, aerial or oblique photography, and have flown within the last five years. Twelve of the jurisdictions state the local assessment office has access to the imagery through the county. Only four of the jurisdictions have street view and it was not clear if these individuals were referring to Google Maps or another program.

SDAT's Response: SDAT is communicating on a one-to-one basis with each county to determine what existing technology can be usefully shared.

Potential Solution/Recommendation:

There is a toolbox of resources available to SDAT through the State as well as the county offices. Building partnerships to have access to these tools would benefit both the county offices and SDAT as they work together to complete common goals. For example, Anne Arundel was able to complete over 4,000 aerial inspections using GeoCortex to verify unimproved accounts. Granted this technology is not used to physically assess properties, however it has led to properties being picked up on the tax rolls. Having a toolbox of resources will benefit SDAT and help to decrease its fieldwork. SDAT should work to clarify what tools the counties have and begin to create partnerships through MOU's to ensure that SDAT's local assessment offices are able to access those tools where possible.

SDAT's Response: The review of 4,000 accounts using GeoCortex produced only 8 new, improved real property accounts, and this product is limited in its use for only vacant parcels.

StateStat Findings (Pictometry):

1. StateStat, DoIT, and MDP have worked with SDAT to secure a six month pilot for the agency. The official pilot started Wednesday, November 5, 2014 and will end in the middle of January 2015. The pilot will focus on data related to the 2016/2017 reassessment period.

Potential Solution/Recommendation:

The findings of Pictometry will help to prove or disprove the ability of the Department to complete a physical assessment using aerial imagery technology. Pictometry is a useful tool and if successful, SDAT should partner with county offices, to gain access to current aerial technology. Furthermore, SDAT should begin discussions with DoIT and the counties to see if there is potential to procure technologies together versus the current segmented approach. Collaboration can help reduce the cost of technology for all stakeholders throughout Maryland. SDAT should also report the findings of the pilot to MACo following the conclusion of the AWG and continue talks with counties as to the future of Maryland as it relates to physical assessments.

StateStat Findings (Real Property Assessments Goals and Completion):

1. SDAT has implemented goals for both residential and commercial assessors. These numbers are county specific, based on the actual number of SDAT assessors and achieve IAAO staffing studies for accounts per assessor. Currently assessors can check off in the system, if they have performed a physical assessment however some individuals were using paper reporting to document physical inspections.

SDAT's Response: Only two counties used paper reporting and this was due to the fact that these counties had done a large number of scattered inspections before the State Supervisor had implemented the policy that the AAVS system must be utilized exclusively for entering these inspections.

2. The Supervisor of Assessments in one local office had not reported data since July to headquarters due to workload. Some Supervisors of Assessments stated it takes an approximately a workday to collect data to send monthly and would like a streamlined data reporting process.

SDAT's Response: This one county did report approximately 20,000 accounts physically inspected in a paper reporting system. Using the AAVS system exclusively reporting physical inspections is a streamlined processing system. This is an instance where StateStat's desired monthly reporting statistics conflict with SDAT's system for updating records.

3. If an assessor goes out on a property they may have appeals and other workloads that keep them from inputting the information into the AAVS system on-time. This practice can also cause assessors to forget the details of a property if not inputted into the system within a

reasonable amount of time. This prevents StateStat from having a real-time view of the work being done by SDAT.

SDAT's Response: This is an instance where StateStat does not understand the assessment process. Assessors do not forget specific details because there are specific notes on the work sheet in the field used by the assessor to later update the information in the system as the workload and schedule permits.

Potential Solution/Recommendation:

SDAT is unable to complete the legal requirement so the self-imposed goal has been put into place to hold the jurisdictions accountable based on IAAO standards per assessor. SDAT should put management tools in place to ensure that all offices have a best practice or standard in place for reporting accurate and timely data back to headquarters throughout the year. Currently each local assessment office has their own method of doing business. Best practices help to provide direction and do not restrict autonomy for supervisors. The implementation of best practices across all twenty-four offices will allow headquarters to set the standard for accurate and timely data collection throughout all levels of the Department no matter where an office is located. This will allow headquarters and StateStat to have a real time portrait of the work being completed at the local offices without relying on assessors to self-report throughout different times of the year.

SDAT's Response: Management tools are already in place statewide. All assessment offices report monthly.

Issues with current reporting were due in part to training. When SDAT rolls out new processes, job aids should be created to ensure that all workers understand the process and supervisors should be required to sign off acknowledging that employees have been trained on and understand the changes.

SDAT's Response: Any issues were not due to employee training but resulted from the time frame the State Supervisor of Assessments used to visit and explain the process to the local assessment offices.

StateStat Findings (Property Sketches):

1. Currently 625,805 sketches are left to be updated or approximately 38 percent of the original 1,671,336 residential sketches. An error in SDAT's system will cause an incorrect assessment calculation if a property without an updated sketch is opened and then saved without the sketch being updated. This will result in the change of the value of a property.

SDAT's Response: In the earlier StateStat document, it incorrectly converted the number of sketches to be done and the number completed to overstate the number to be done. More importantly, SDAT has a standard policy to open and save a sketch only when a proper "change" is to occur. In the rare instance of an inadvertent change, a monthly edit report would find the change which would be corrected.

Potential Solution/Recommendation:

With the Department hiring and training new employees, human error or inexperience could miscalculate the value of a property due to this system issue. As a short-term fix, the Department should look into ways to identify possible changes in value through reporting mechanisms and require supervisors to perform audits of properties without updated sketches. The AAVS system already has a regular routine to check Notified Value against value in system, however in the long-term; SDAT should create a plan to update all the sketches in the system in order to prevent inaccurate calculations.

StateStat Findings (Permit Data):

1. The majority of SDAT's local offices systematically file permits under \$100,000, which are not submitted electronically, in a notebook. This method creates room for errors and permits could be lost as they wait for the corresponding reassessment cycle.

SDAT's Response: Based on volumes, some assessment offices do enter permits under \$100,000 electronically into the system.

2. The Department receives the permits in multiple formats from the twenty-four jurisdictions and in some cases the permits are handled by multiple people and reentered due to the process not being streamlined across the state. Budgetary limitations prevent the process from going completely online at this point in time.

SDAT's Response: Regardless of the local jurisdiction, permits are entered only once and are not reentered.

Potential Solution/Recommendation:

SDAT completed a survey of the majority of the local offices and discovered that most have the capability of sending the data using an excel spreadsheet, which is the format needed to upload the permits to AAVS. SDAT should continue to partner with MACo and DoIT as it continues to reduce the amount of properties that are entered manually. Streamlining SDAT's permit data is important to ensure that properties are not missed and that human error does not cause permits to be lost or improperly entered due to multiple handling points.

SDAT's Response: The Department already has a regular routine to check Notified Value against Value in the AAVS system to find any errors that will be corrected in the system.