

E50C00
State Department of Assessments and Taxation

Department's Response to the Operating Budget Analysis

Senate Subcommittee Hearing: March 9, 2015

The Department respectfully requests your favorable consideration to approve the 8 Specially Funded positions in the Governor's Fiscal Year 2016 Allowance. The new positions will increase the staff in the Department's Chartered Unit which serves the business community by registering companies, corporations, and partnerships in Maryland. The Department also respectfully ask that the committee accept the analyst's recommendation to release the \$100,000 in General Funds restricted in the FY 2015 Budget.

Responses

Business Property Valuation

**Timeliness Measures Continue to Decline within the Business Property Valuation Program
The department should comment on its ability to assess personal property returns in a timely fashion going forward and how it will address the increased assessor workload.**

As part of its new business process for the Personal Property Division SDAT initiated an online Personal Property return system on January 30, 2015. The system is the first step towards reducing the increased assessor workload by reducing the time assessors spent handling paper returns. The system will be expanded in the future to include the online reporting for all businesses and to incentivize online filers.

Although the Division lost an additional three assessing staff members to retirement in FY14 we were able to hire five Assessor for FY' 15. The increased staff will assist in reducing the individual assessor workload and allow faster processing of the 2015 returns. The start date for the review and valuation of the 2015 returns is expected to begin one month earlier this year as well.

FY 2015 Actions, Cost Containment

The agency should comment on how it will implement the reductions and the impact the reductions will have on operations.

The Department will be required to postpone its recruitment efforts on any vacant positions for the remaining of this fiscal year. This action may include positions that are key to addressing the recent audit findings and cause the Department to be out of compliance with some mandates required by law. The Department will review all current contracts in order to identify some

efficiencies and cost savings. The CFO sent a memo to all county offices/programs requesting reductions in their spending and now require pre-approval on all expenditures except the normal monthly routine items.

Due to the nature of our business, the Department must cover expenditures such as mileage reimbursement for assessors who are conducting field work, postage on mailings of assessments notices for both Real and Business Property Programs, Tax Credit Applications, and the printing and duplication of forms. The majority of the Department's General Fund Budget is allocated to Tax Credits and Salaries and Fringe Benefits.

Cost Containment Fiscal 2016 Proposed Budget

The agency should comment on how these reductions will impact SDAT's operations.

The Department will maintain any vacant (current or upcoming) position for the entire year and cancel all recruitments except for Special Funded positions. This action may impact the recruitment of assessor positions that should be filled in order to meet the mandate of physical inspections. These positions also generate revenue for both the counties and the State. If the Department is required to keep any of these positions vacant due to a resignation, it will be challenging to avoid potential audit findings.

Property Tax Credits

The agency should comment on the relationship between the decrease in the number of participating businesses and the increased value of tax credits.

The Enterprise Zone Tax Credit is calculated on a sliding percentage basis. During years 1 through 5 the credit is granted on 80% of the increase in value from the assessment of new improvements (eligible assessment). The percentage decreases 10% annually, during year 6 thru 10, from 70% to 30%. Therefore, despite the overall reduction in the number of participating businesses there may be a resulting decrease in the value of the tax credits from these businesses.

Also, there has been a noticeable increase in the magnitude of the eligible assessment on which the tax credit is calculated for new participating businesses during this period. For example, the eligible assessment for the new participating businesses at the Horseshoe Casino exceeds \$350,000,000. There are also significant increases for new participating businesses within the Harbor East Development area.

Issues

1. Resolution of Repeat Audit Findings

Resolution of Repeat Audit Findings: Fiscal 2015 budget bill language requested a report from the State Department of Assessments and Taxation (SDAT) on the resolution of the findings contained within the fiscal compliance audit from the Office of Legislative Audits (OLA) dated December 2013. SDAT took the necessary corrective action to implement the recommendations for two findings, and actions are ongoing to resolve the remaining repeat finding. **The agency should comment on the progress it has made in satisfactorily resolving Finding 5 of OLA's December 2013 audit. Upon satisfactory progress, the Department of Legislative Services recommends that the committees vote to release the \$100,000 in general funds that were held pending resolution of the repeat audit findings.**

During a review of SDAT's progress on this finding, the OLS found that verifications of homeowners' and renters, tax credit applications were still not timely. As of December 2014 SDAT had completed the audits for applications received from homeowners and renters who were granted tax credits in years 2009 and 2010 and the audits of applications of credits granted in years 2011 and 2012 had recently begun and were in progress and SDAT's estimated start date for the 2013 audits as July 2015.

SDAT received three new positions for the tax credit programs in the approved fiscal year 2015 budget. These positions were intended to accelerate the timeliness of the tax credit audits. However, one of the new positions has to be held to meet budgeted turnover and one existing position was vacated due to the sudden death of the employee. The Department continues to make progress towards the completion of the remaining audits; however, the pace of that progress is slower than was anticipated. SDAT is currently evaluating the purchase of a high volume scanner to reduce the employees' handling of paper applications thereby increasing the pace of these audits.

Over the past year SDAT has worked with staff from the DBM Audit Unit to address the repeat findings. We continue to work with the Audit Unit to address all the findings in order to avoid repeat findings in upcoming audits.

2. The State Department of Assessments and Taxation Workgroup

The State Department of Assessments and Taxation Workgroup: A workgroup was convened to examine issues related to the property assessment process for both real and personal property appraisals and the tax credit programs for which SDAT is responsible for calculating property tax credits and exemptions. The workgroup made a number of recommendations for improving the business processes of the agency and communication among the stakeholders. **The department should comment on the recommendations made by the workgroup and the fiscal impact of implementing the recommended changes to business processes.**

The Assessment Work Group AWG was assigned four specific charges related to the assessment process for real and personal property, tax credits, and exemptions.

Physical Inspections:

The Department is required to perform the physical inspection of approximately 750,000 properties each year. SDAT has not been able to accomplish this task due to insufficient staff and other factors so the Department began exploring aerial imagery as an alternative to physical inspections. The Department ended its photo imagery pilot project on March 3, 2015. The project was initiated to test the feasibility of using oblique imagery as a tool to perform virtual property inspections to supplement the required annual physical inspections. Due to the recent completion of the pilot SDAT has not yet compiled and analyzed the final results. Although there is some indication from the pilot that oblique imagery software can be a useful tool the effectiveness of that use for property inspections will be determined when SDAT completes a full analysis of the project.

Timely Pick Up of New Property:

SDAT has been working with county and local government permit offices to obtain permit data in Excel format. Permit information in Excel can be efficiently imported to SDAT's Assessment Administration and Valuation System, AAVS database. Once imported this information can be queried and tracked for the timely completion of out-of-cycle assessments (assessments that generate value increases of \$100,000 and over).

Also, SDAT's Baltimore City office and the Baltimore City Permit office are currently working on a new business process to facilitate the efficient exchange of permits data from Baltimore City to SDAT and the timely reporting of actions SDAT performs with the permit data it receives. Once this feedback instrument is refined it will be adapted to work with all permit jurisdictions.

Tax Credits and Exemptions:

SDAT completed the input of assessment data for all three reassessment phases to AAVS as of July 1, 2014. The Department is now capable of using AAVS to regularly produce uniform and complete Enterprise Zone Tax Credit reports. During the period the workgroup was in session SDAT's Baltimore City office completed the review of all exempt properties in Baltimore City. A standard questionnaire with a rating system was implemented during the performance of this task which SDAT is now using during the reexamination of exempt properties statewide.

Personal Property Returns - Online Business Processes

The new Online Personal Property reporting system implemented on January 30, 2015 is expected to improve the timeliness of personal property certifications. The system will be

expanded in the future to include the online reporting for all businesses and to incentivize online filers. Pursuant to the AWG recommendation SDAT anticipates that personal property online certifications will be mandated following this initial development phase.

AWG General Recommendations

In addition to the specific recommendations for the 4 assigned charges, the AWG also made three general recommendations 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.

Prior to the completion of the AWG final report, SDAT was already in the process of implementing several items that are included in these three general recommendations. Regarding new technology and new business processes:

For physical inspections, SDAT initiated the photo imagery pilot project in March 2014 to evaluate an alternate property inspection method. Pending the result of the pilot project SDAT is also considering legislation for a change the current definition of physical inspection as well as the length of the reassessment cycle along with required additional staffing.

For the timely pickup of new properties, with assistance from MACo, SDAT conducted a survey of counties and municipalities to determine their current use of electronic permit data and other technologies. One result from that survey was SDAT's request to local governments that permit data be transmitted to us in an excel format. This enables the Department to timely perform out-of-cycle assessments.

For tax credits and exemptions, the recent addition of the third and final group of reassessment property accounts to our valuation system, AAVS enabled the accurate calculation of the Enterprise Zone tax credits and the uniform reporting of tax credit accounts. Also, SDAT implemented a standard questionnaire with a rating system during a recent reviews of all tax exempt property accounts within Baltimore City. The questionnaire is now used to reexamine exempt properties statewide. The rating system will enable SDAT to more frequently review at risk exemptions.

For personal property assessments, SDAT initiated an online Personal Property return system on January 30, 2015. The system will assist with the timely processing of personal property returns.

The Department continues to work on the recommendations of the AWG.

Regarding the recommendation that the legislature or Governor consider **the creation of an Advisory Council** in order to assure progress on the implementation of the AWG's recommendations, a good number of the AWG recommendations for new technology and new business processes already were implemented prior to or during the period the AWG was in session. SDAT does support the need for effective communication to and from both sides in order to consider issues of mutual interest and concern with local governments and welcomes any means to improve those communications. However, SDAT remains doubtful that an Advisory Council is an effective manner to assure progress on the implementation of the AWG's recommendations.

Nevertheless, SDAT strongly believes that if an Advisory Council is to be created, it should be by the introduction of a bill that specifies, among other requirements, the membership, the structure, and the duties and responsibilities of the Council. This would allow for the General Assembly to consider **a new concept of shared governance of an Executive Branch agency** and to hear from local government officials. This bill will also have the benefit of public hearings in both the House and Senate.

This ends our responses. I and the other managers of our Department would be happy to answer any questions you have.