

**E50C**  
**State Department of Assessments and Taxation**

***Executive Summary***

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The State Department of Assessments and Taxation (SDAT) is responsible for conducting real property assessments statewide, administering property tax credit programs, and processing business filings.

***Operating Budget Data***

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(\$ in Thousands)

	<b><u>FY 18</u></b> <b><u>Actual</u></b>	<b><u>FY 19</u></b> <b><u>Working</u></b>	<b><u>FY 20</u></b> <b><u>Allowance</u></b>	<b><u>FY 19-20</u></b> <b><u>Change</u></b>	<b><u>% Change</u></b> <b><u>Prior Year</u></b>
General Fund	\$114,798	\$116,816	\$124,565	\$7,750	6.6%
Adjustments	0	6,678	636	-6,041	
<b>Adjusted General Fund</b>	<b>\$114,798</b>	<b>\$123,493</b>	<b>\$125,201</b>	<b>\$1,708</b>	<b>1.4%</b>
Special Fund	27,342	29,194	33,828	4,634	15.9%
Adjustments	0	748	657	-91	
<b>Adjusted Special Fund</b>	<b>\$27,342</b>	<b>\$29,942</b>	<b>\$34,486</b>	<b>\$4,543</b>	<b>15.2%</b>
<b>Adjusted Grand Total</b>	<b>\$142,140</b>	<b>\$153,436</b>	<b>\$159,687</b>	<b>\$6,252</b>	<b>4.1%</b>

Note: The fiscal 2019 appropriation includes deficiencies, a one-time \$500 bonus, and general salary increases. The fiscal 2020 allowance includes general salary increases.

- The Governor's budget plan includes deficiencies totaling \$11.4 million to support property tax credit payments, a software contract, and statewide salary actions. This total also includes a deficiency of \$4.0 million to fund expenses incurred in fiscal 2018. That amount is not included in the summary tables in this analysis.
- Net of deficiencies, the fiscal 2020 allowance for SDAT is an increase of \$6.3 million (4.1%) over fiscal 2019. This increase is attributable to a higher estimate for tax credit payments, statewide personnel actions, and the cost of a major information technology project.

Note: Numbers may not sum to total due to rounding.

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## ***Personnel Data***

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	<b><u>FY 18</u></b> <b><u>Actual</u></b>	<b><u>FY 19</u></b> <b><u>Working</u></b>	<b><u>FY 20</u></b> <b><u>Allowance</u></b>	<b><u>FY 19-20</u></b> <b><u>Change</u></b>
Regular Positions	592.30	592.30	592.30	0.00
Contractual FTEs	<u>7.55</u>	<u>10.50</u>	<u>8.00</u>	<u>-2.50</u>
<b>Total Personnel</b>	<b>599.85</b>	<b>602.80</b>	<b>600.30</b>	<b>-2.50</b>

### ***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions

45.35      7.91%

Positions and Percentage Vacant as of 12/31/18

87.00      14.69%

- The budget includes a reduction of 2.5 contractual full-time equivalents (FTE). SDAT reports that the functions for 2 of the FTEs are now being performed by regular employees and that the other 0.5 FTE is no longer needed due to workload changes.
- The number of vacant positions is 22.5% higher than the number of vacant positions on December 31, 2017. SDAT currently has 23 regular positions that have been vacant for more than 12 months.

## ***Key Observations***

- ***Staffing Shortage in Real Property Valuation:*** SDAT's Real Property Valuation Program saw a large increase in the number of employees leaving State service in fiscal 2018 and has been unable to replace those employees due to salary competition and process issues. The agency must work to resolve this problem or risk even more serious deterioration of the situation.
- ***Tax Credits Grow:*** The property tax credit programs administered by SDAT grew significantly in fiscal 2018 and are projected to see continued growth through at least fiscal 2020.

## **Operating Budget Recommended Actions**

1. Adopt narrative expressing the intent of the committees that the real property assessor and office clerk classes receive a one grade increase as part of the fiscal 2021 Annual Salary Review.
2. Request quarterly updates on hiring in the Real Property Valuation Division.

## **Updates**

This analysis includes updates on the following topics:

- a summary of SDAT's eligibility awareness activities related to the Homestead Tax Credit Program; and
- the pending resolution of repeat audit findings.

**E50C**  
**State Department of Assessments and Taxation**

***Operating Budget Analysis***

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**Program Description**

The State Department of Assessments and Taxation (SDAT) supervises the assessment of all property in the State. The department performs assessments on one-third of all real property and all personal property in the State every year and certifies to the local taxing authorities the assessment of every piece of property. The department also administers four tax credit programs: the Homeowners' Property Tax Credit Program; the Renters' Tax Credit Program; the Base Realignment and Closure (BRAC) Revitalization and Incentive Zone Tax Credit Program (through the end of fiscal 2019); and the Enterprise Zone Tax Credit Program. The homeowners' and renters' programs provide property tax relief to all eligible homeowners and renters. The BRAC zone program provides tax-related financial incentives to local governments by providing State support for property tax increases on qualifying properties located in BRAC zones. The Enterprise Zone Tax Credit Program reimburses local governments for property tax credits given to businesses that are located in or expand into enterprise zones. The department collects public service company franchise taxes and assesses all public utility companies in the State. It also serves as the filing place for businesses operating in the State. The department registers companies, corporations, and partnerships in Maryland and generates certificates and certified documents. The various forms that businesses must file with the department are available to the public for inspection.

The goals of the department are to provide a consistently accurate property valuation system, run efficient and effective programs for property tax relief and business services, and operate convenient and professional facilities.

**Performance Analysis: Managing for Results**

**1. SDAT Hits Benchmarks for Assessments**

Property assessments are a sensitive and sometimes volatile issue for property owners. SDAT strives to provide accurate and fair assessments. SDAT measures appraisal accuracy as the degree to which properties are appraised at market value, as defined by professional standards published by the International Association of Assessing Officers (IAAO). There are three measures, as detailed below.

The assessment-to-sales ratio (ASR) is a ratio of the assessed value to the sales price of the property. The closer the ratio is to 100.0%, the closer the assessments are to the sales prices. A ratio over 100.0% indicates that assessments were higher, and a ratio under 100.0% indicates that assessments were lower than market values. The IAAO range and SDAT's goal for acceptable performance for the ASR is 90.0% to 110.0%. As illustrated in **Exhibit 1**, the department's fiscal 2018 ASR was 95.0%, the same as fiscal 2017.

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**Exhibit 1**  
**Accuracy Measures**  
**Fiscal 2014-2018**

<u>Measure</u>	<u>Goal</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Assessment-to-sales Ratio	90-110%	90.00%	93.00%	93.50%	95.00%	95.00%
Coefficient of Dispersion	=< 15.00	10	10	9	10	10
Price-related Differential	.98-1.03	1.02	1.01	1.01	1	1

Source: Department of Budget and Management

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The department is also performing within its targets for the remaining two measures. The coefficient of dispersion (COD) measures how close individual ASRs are to the median ASR for an area. A large COD indicates a wide range of assessment values in a particular area. The lower COD, the more closely ASRs are to the median ASR value; a COD under 15.0 is considered acceptable. COD for SDAT in fiscal 2018 was 10.0, the same as fiscal 2017. The third measure is the price-related differential (PRD). PRD measures bias in ASR. There is bias in assessments when the assessments are systematically higher or lower than they should be, based on ASR. The ideal PRD is 1.0, indicating unbiased assessments. A PRD in excess of 1.0 indicates underestimated appraisals for high-dollar properties, and a PRD less than 1.0 indicates underestimated appraisals for low-dollar properties. PRD for SDAT in fiscal 2018 is 1.0, also the same as fiscal 2017.

## **2. Department Reassesses Properties After Natural Disasters**

Unfortunately, a number of natural disasters have impacted the State in the last several years, including the two floods that have significantly damaged historic Ellicott City and major events in Baltimore City and Queen Anne’s County. There are many actions that the State has taken to assist citizens through the recovery process, including the provision of abatements on property tax assessments for properties that have been partially damaged or totally destroyed. Property owners are entitled to such an abatement under Tax – Property Article Section 10-304, but SDAT has been proactive in its own procedures to ensure that property owners can take full advantage of this entitlement. Specifically, the agency reports that it performs outreach in person and on social media to encourage impacted property owners to request a reassessment. In addition, property owners do not have to ask SDAT to make reassessments; when the agency is aware that a property has been damaged, it can simply conduct the reassessment on its initiative.

To provide one example of the impact of these reassessments, for the two major flooding events in Ellicott City in calendar 2016 and calendar 2018, SDAT determined that 87 and 69 properties had been damaged, respectively. In total, damage temporarily reduced property values by \$20.3 million and \$17.7 million, respectively, which reduced the property taxes owed by those impacted property owners.

### **3. Customer Service Responses Continue to Grow**

In fiscal 2016, as part of the Executive Branch’s broader customer service initiative, SDAT began soliciting customers to respond to satisfaction surveys and has reported the results of those surveys since the launch of the project. As shown in **Exhibit 2**, there are now three years of data available for the program. This data shows that the number of responses is still relatively small but has shown strong year-over-year growth. While it also shows the percentage of satisfied responses declining over the period, this is more likely an impact of the growth in the respondent pool rather than a performance trend for the agency.

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**Exhibit 2**  
**Customer Satisfaction Surveys**  
**Fiscal 2016-2018**

	<u><b>2016</b></u>	<u><b>2017</b></u>	<u><b>2018</b></u>
Customer Experience Feedback Forms Received	497	748	1,367
Percentage of Respondents That Were Satisfied	94.4%	91.0%	87.5%
Percentage of Respondents That Were Dissatisfied	3.0%	6.2%	12.5%

Source: Department of Budget and Management

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### **Fiscal 2019 Actions**

#### **Proposed Deficiency**

The Governor’s budget includes fiscal 2019 deficiencies for SDAT totaling \$11.4 million in general funds and special funds for the following purposes:

- \$5.5 million in general funds for anticipated disbursements for the Homeowners’ Tax Credit Program;
- \$1.0 million in general funds for anticipated disbursements for the Renters’ Tax Credit Program;
- \$558,974 in special funds to reflect a change to how the Charter Unit’s online filing vendor is reimbursed for services;
- \$153,811 in general funds and \$165,088 in special funds for a \$500 bonus for qualifying regular employees on April 1, 2019; and

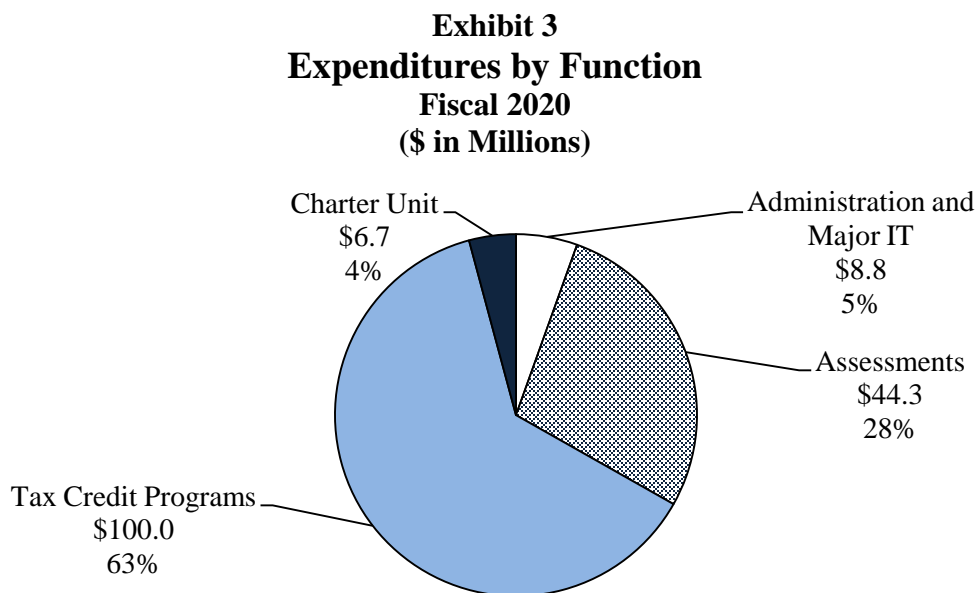
- \$23,746 in general funds and \$24,318 in special funds for a 0.5% general salary increase effective April 1, 2019.

The budget also includes a further general fund deficiency of \$4.0 million due to a fiscal 2018 shortfall in the appropriation for tax credit programs. There was significant growth in the utilization of these programs in fiscal 2018 that was not accounted for in the initial appropriation. The Governor is required to provide a deficiency appropriation to fund these credit programs if the original appropriation is insufficient.

## **Fiscal 2020 Allowance**

### **Overview of Agency Spending**

The majority of SDAT's budget is devoted to the payment of State-funded property tax credits, as show in **Exhibit 3**. Outside of those payments, most of the agency's budget is devoted to the assessment functions, which is also where most of the agency's staff are allocated. The Charter Unit is responsible for business filings and records and is funded entirely with revenue generated by the Charter Unit's expedited service charges.

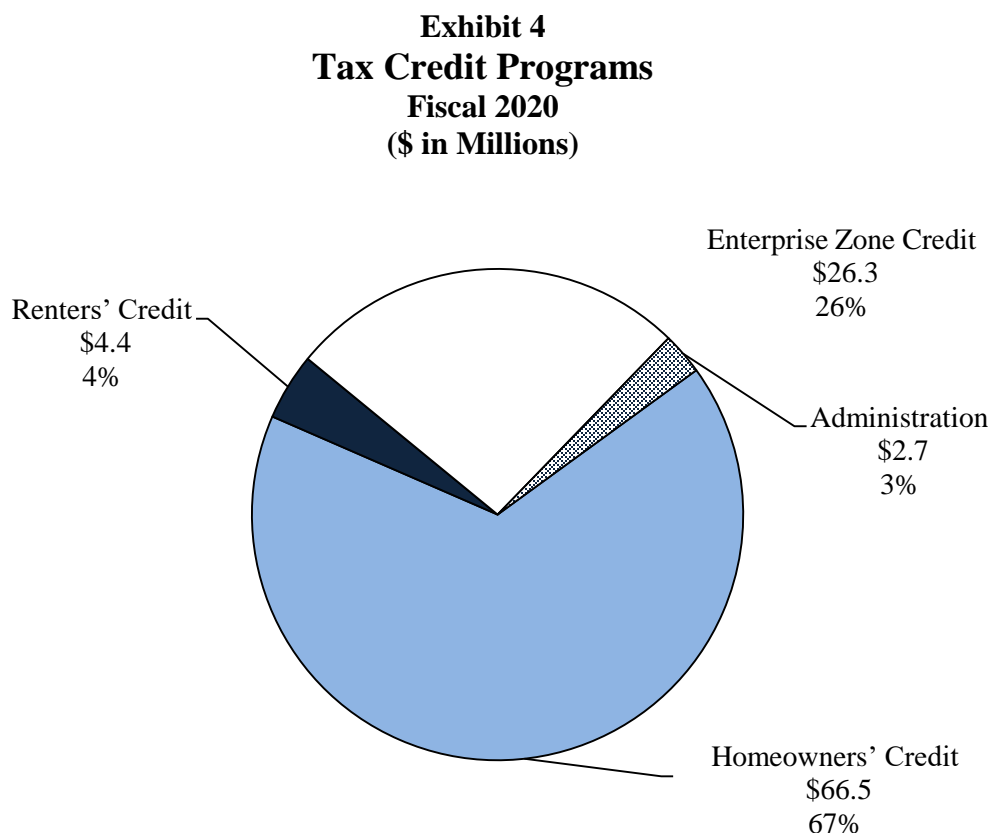


IT: information technology

Source: Department of Legislative Services

**Exhibit 4** provides additional detail on the programmed expenditures for the tax credit payments and the administration of the programs. The Homeowners' Tax Credit continues to be the largest program, but all three ongoing credits have grown in recent years. The allocation for administration includes funds provided by local governments with jurisdictional credit programs administered by SDAT.

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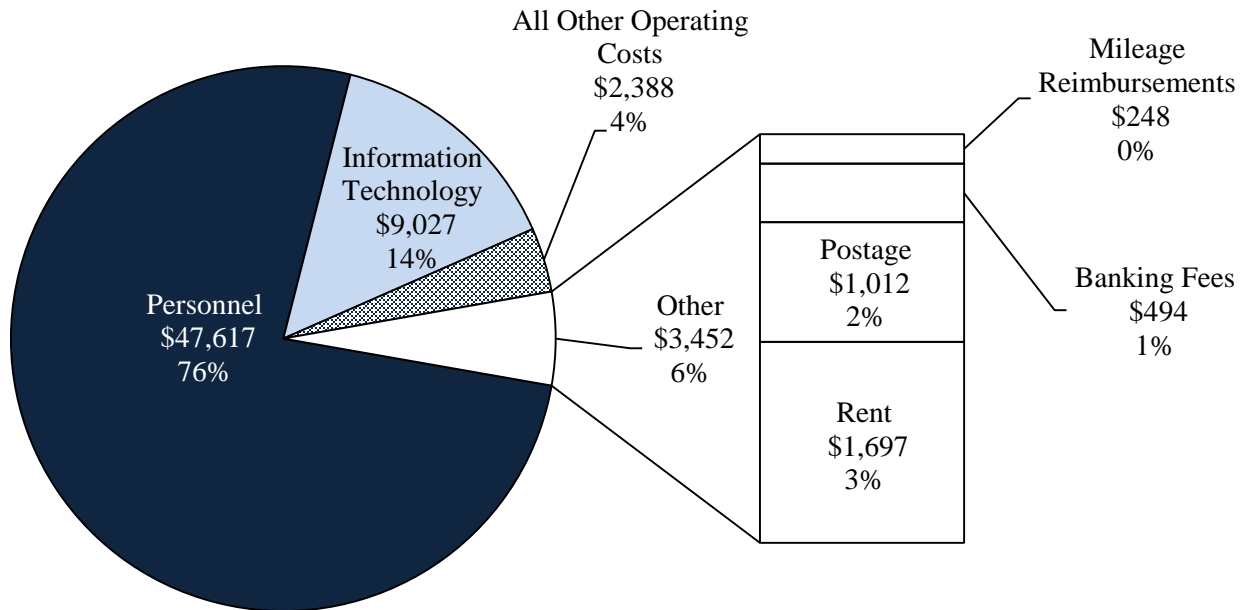
Source: Department of Legislative Services

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Finally, **Exhibit 5** provides additional detail on SDAT's budget, excluding property tax credit payments. These are the funds that go toward supporting SDAT's operations. This exhibit shows that, similar to other agencies, over three-fourths of SDAT's budget outside of tax credit payments is devoted to personnel. Information technology (IT) is the next biggest share of the allowance and includes the costs for the Strategic Enterprise Application Network (SEAN) major IT project, Department of Information Technology service charges, and operations and maintenance contracts for major systems.



**Exhibit 5**  
**Spending Plan Excluding Tax Credits**  
**Fiscal 2020**  
**(\$ in Thousands)**



Source: Department of Legislative Services

**Proposed Budget Change**

As shown in **Exhibit 6**, the fiscal 2020 allowance increases by \$6.3 million (4.1%), due to the SEAN major IT project, statewide salary changes, and estimated tax credit payments.

**Exhibit 6**  
**Proposed Budget**  
**State Department of Assessments and Taxation**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Total</u></b>
Fiscal 2018 Actual	\$114,798	\$27,342	\$142,140
Fiscal 2019 Working Appropriation	123,493	29,942	153,436
Fiscal 2020 Allowance	<u>125,201</u>	<u>34,486</u>	<u>159,687</u>
Fiscal 2019-2020 Amount Change	\$1,708	\$4,543	\$6,252
Fiscal 2019-2020 Percent Change	1.4%	15.2%	4.1%

**Where It Goes:**

**Personnel Expenses**

3% general salary increase effective July 1, 2019 .....	\$1,111
Employee and retiree health insurance .....	519
Employer retirement contributions .....	435
Annualization of 2.0% general salary increase effective January 1, 2019 .....	362
Annualization of 0.5% general salary increase effective April 1, 2019 .....	135
Other fringe benefit adjustments .....	-46
Impact of \$500 bonus for qualifying employees on April 1, 2019 .....	-319
Compensation changes including rebasing of positions, reclassifications, and accrued leave payouts .....	-524
Increase turnover expectancy from 6.0% to 7.9% .....	-600

**Tax Credit Programs**

Homeowners' Tax Credit .....	1,000
Enterprise Zone Property Tax Credit .....	804
Renters' Tax Credit .....	400
Base Realignment and Closure Zone Property Tax Credit .....	-2,133

**Other Changes**

Strategic Enterprise Application Network major information technology project .....	3,725
Department of Information Technology charges .....	657
Postage .....	273
Equipment purchase and upkeep .....	195
Software licenses .....	88
Mileage reimbursements for assessors .....	87
Printing contracts .....	71
Contractual employee compensation .....	-151
All other changes .....	162

**Total** **\$6,252**

Note: Numbers may not sum to total due to rounding.

## **Personnel**

Personnel expenditures increase by \$1.1 million. Statewide general salary increases and the impact of a \$500 bonus for qualifying employees on April 1, 2019, increase the appropriation by a total of \$1.3 million. Growth in health insurance and pension contribution rates adds a further \$954,883. There are, however, two changes that significantly reduce the agency's base personnel budget. First, there is a reduction of \$523,635 for compensation adjustments unrelated to statewide general salary increases, including reclassifications, accrued leave payouts, and the rebasing of positions upon the departure of tenured employees. Second, the budget includes an increase in the agency's turnover expectancy from 6% to 7.9%, which reduces the appropriation by a further \$600,000.

### **Vacancy Rate in Real Property Valuation Significantly Worsened in Fiscal 2018**

The combination of higher turnover expectancy and significant decreases due to the rebasing of positions shows that the agency is facing an acute staffing shortage. While SDAT has struggled for several years to hire and retain staff, particularly real property assessors, due to competition from better paying employers in the sector, the situation appears to have significantly deteriorated in calendar 2018. The vacancy rate increased from 12.0% on December 31, 2017, to 14.7% on December 31, 2018.

SDAT has identified two reasons for this change in calendar 2018. First, the agency reports that 45 assessors left the agency in fiscal 2018, compared to 30 in fiscal 2017 and 25 in fiscal 2016. SDAT has 268 assessor, assessment manager, and assessment supervisor positions, meaning that 1 out of 6 assessor positions statewide became vacant at some point in fiscal 2018. SDAT reports that, especially for assessors with several years of experience, State salaries are not competitive. That market problem was compounded by a leadership decision in fiscal 2018 to place a hiring freeze on the Real Property Valuation Program in order to make the agency's budget target (the freeze has since been lifted). SDAT reports that the agency is now unable to hire enough assessors to replace those who are leaving, even when it is actively recruiting.

In order to bolster its efforts, the agency is in the process of hiring for 1 new recruitment specialist position, which should be filled by the end of February 2019. The agency has also reported that it is preparing a request for a fiscal 2021 Annual Salary Review to increase salaries for assessment-related positions. The Department of Legislative Services (DLS) notes that, on February 1, 2019, there was only 1 job listing for an assessor (Baltimore City) in the Real Property Valuation Program on the State's online job portal and only 1 Office Clerk listing (Montgomery County). **SDAT should comment on the actions that it is currently taking to solicit and hire qualified applicants for these positions.**

Real property assessors currently enter State service at grade 13, which, as of January 1, 2019, has a base salary of \$37,289. An office clerk in Real Property Valuation is a grade 8 position, with a base salary of \$27,589. It is no surprise then that the agency struggles to fill these positions, especially in jurisdictions with higher costs of living. **DLS agrees with SDAT that a grade increase for high-vacancy job classes deserves serious consideration and recommends that the committees adopt intent language calling for the Department of Budget and Management to provide a one grade increase for assessors and office clerks in the next annual salary review.**

DLS is also concerned by the agency's decision to increase turnover expectancy in light of the obvious need to fill vacancies and the aggressive plan it has outlined. While it is the case that 7.9% turnover expectancy is still lower than the agency's actual vacancy rate, this change is counterproductive. SDAT has proven itself to be a careful steward of its budget, as evidenced by the reversion and cancellation of over \$1.0 million from the real property assessment program in fiscal 2018 (exactly 3.0% of the final appropriation for the program). There is every reason to believe that if, at the end of fiscal 2020, there were vacancy-related savings in excess of budgeted turnover that those funds would be reverted. Given the relatively small amount of funds involved, the demonstrated need for rapid hiring and better compensation, and the fact that unused funds would be returned rather than expended for other purposes, the turnover change is unnecessarily restrictive for the agency.

**DLS recommends that the committees adopt narrative requiring quarterly reports on the status of hiring in the Real Property Valuation Program, including the number of new hires, the number of staff to leave State service, the number of positions posted, the number of qualifying applications received, the length of time from posting of each position to the acceptance of an offer of employment, and a description of the agency's hiring efforts.**

### **Tax Credit Programs**

The fiscal 2020 allowance includes funding for three property tax credit programs, all of which have increased allocations over fiscal 2019. The Homeowners' Tax Credit allocation increases by \$1.0 million to \$66.5 million, the Renters' Tax Credit increases by \$400,000 to \$4.4 million, and the Enterprise Zone Property Tax Credit Program increases by \$803,672 to \$26.3 million.

The allowance also decreases by \$2.1 million due to the end of the BRAC Closure Zone Property Tax Credit Program, which sunsets in fiscal 2019.

### **Scope Change Increases Estimated Cost of Strategic Enterprise Application Network Major IT Project**

The other notable change to the fiscal 2020 allowance is an increase of \$3.7 million in special funds to support the next year of development for the SEAN major IT project. Last year the scope of the project included the replacement of some, but not all, of SDAT's legacy mainframe applications, and the total project cost was \$3.5 million with an expected completion date in fiscal 2020. Since that time, working with its vendor, SDAT has determined that all of the agency's legacy systems can and should be replaced across all department functions. This change in scope is not surprising given the age and condition of the agency's current systems and should greatly improve the user experience of both employees and the public. The total cost of the project has increased to \$10.0 million, including \$8.5 million in agency special funds, and programmed expenditures now extend into fiscal 2021.

## Issues

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### 1. Property Tax Credit Claims Surge

In fiscal 2018, SDAT distributed tax credits totaling \$93.9 million, compared to total credits of \$78.0 million in fiscal 2017 for a year-over-year increase of 20.3%. The actual expenditures and appropriated funds for each credit are shown in **Exhibit 7**. While growth is expected to continue in fiscal 2019 and 2020, the rate is much slower than it was for fiscal 2018 due to an anticipated plateauing of Enterprise Zone payments and the end of the BRAC Zone tax credit program in fiscal 2019.

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**Exhibit 7**  
**Property Tax Credit Program Expenditures**  
**Fiscal 2017-2020**  
**(\$ in Thousands)**

	<u>2017 Actual</u>	<u>2018 Actual*</u>	<u>2019 Working Appropriation*</u>	<u>2020 Allowance</u>
Homeowners' Tax Credit	\$54,151	\$61,699	\$65,500	\$66,500
Renters' Tax Credit	3,086	3,592	4,000	4,400
Enterprise Zone Tax Credit	19,930	26,440	25,500	26,304
BRAC Zone Credit**	838	2,133	2,133	-
<b>Total</b>	<b>\$78,005</b>	<b>\$93,864</b>	<b>\$97,133</b>	<b>\$97,204</b>

BRAC: Base Realignment and Closure

\* Includes deficiency appropriations.

\*\* Program sunsets at the end of fiscal 2019.

Source: Governor's Fiscal 2020 Budget Books

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### Homeowners' and Renters' Tax Credit Programs

The growth in the homeowners' and renters' tax credit programs is particularly notable. Chapters 667 and 668 of 2016 required SDAT to compile a list of all residential properties valued at less than \$300,000 for which credits were not claimed and to work with the Comptroller to determine the homeowners who may be eligible for the program. SDAT was then required to contact those homeowners with information about the program. Chapter 483 of 2016 altered the formula for determining the value of Renters' Tax Credit payments and increased the maximum credit from \$750 to \$1,000. It appears that these changes have had an effect on their respective programs, as illustrated in **Exhibit 8**.

**Exhibit 8**  
**Homeowners' and Renters' Tax Credit Program Utilization**  
**Fiscal 2016-2018**

	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Homeowners' Tax Credit</b>			
Total Applicants	62,335	61,540	67,587
Total Applications Eligible	46,751	45,964	46,682
Average Credit Value	\$1,249	\$1,301	\$1,322
<b>Renters' Tax Credit</b>			
Total Applicants	10,606	11,720	12,013
Total Applications Eligible	7,650	8,374	8,904
Average Credit Value	\$301	\$344	\$403

Source: Department of Budget and Management

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The growth in applications likely indicates an increasing public awareness of these programs due to required and voluntary campaigns conducted by SDAT since 2016. However, the growth rate for eligible applications is somewhat lower, indicating that a larger share of applications are being rejected, either due to deficient applications or because they do not meet the eligibility criteria. While it is to be expected that the average credit value for the Renters' Tax Credit Program would increase to coincide with the increase in the maximum credit, there has also been 5.8% growth in the average value of homeowners' tax credits since 2016. This growth explains \$3.4 million, or just under half, of the increased program cost in fiscal 2018. That implies that either a decline in the income of eligible applicants or an increase in assessed property values is driving organic growth in the program similar in scope to the impact of outreach efforts.

**SDAT should discuss with the committees its outreach efforts for these programs and provide an explanation for the growth in the programs since fiscal 2017.**

**Enterprise Zone Pipeline Report Information Will Improve Planning**

In the 2018 *Joint Chairman's Report* (JCR) the committees asked SDAT to provide a report detailing the process by which it determines the number and value of enterprise zone tax credits in the State and how it handles the onboarding of new credit recipients after the Department of Commerce announces a new enterprise zone in the State. Additionally, per the committees' request, SDAT worked with the administrator of each enterprise zone and prepared a detailed report on all properties currently in the program and expected to enter the program in fiscal 2020. DLS used this figure to better inform the baseline budget estimates reported to the Spending Affordability Committee. **DLS recommends that, while this report has significant utility for planning purposes, if the agency is willing to**

**provide an estimate of the anticipated total value for credits prior to the development of the DLS baseline, then there is no need to require this report going forward.**

## ***Operating Budget Recommended Actions***

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1. Adopt the following narrative:

**Annual Salary Reviews for Real Property Valuation Program:** The committees are concerned by the noncompetitive compensation that the State currently offers to real property assessors in the State Department of Assessments and Taxation. It is the intent of the committees that, in order to begin to work toward resolving this issue, that real property assessors and office clerks should receive a grade increase as part of the fiscal 2021 Annual Salary Review.

2. Adopt the following narrative:

**Status Updates on Staffing in the Real Property Valuation Program:** The committees are concerned about reports of the serious staffing and hiring problems in the Real Property Valuation Program since the start of fiscal 2018 due to noncompetitive salary, a high number of employees leaving State service, and inadequate recruiting and hiring. It is essential that the State Department of Assessments and Taxation (SDAT) work aggressively to resolve this issue. The committees wish to remain apprised of this situation throughout the coming year and request quarterly updates on SDAT's efforts. In addition to a narrative description of SDAT's efforts to increase hiring for this program, these reports shall include the following information by employee class title and jurisdiction for the quarter preceding the due date of the report:

- the number of employees in the program that have left State service;
- the number of new hires;
- the number of positions posted;
- the number of qualifying applications received in response to each posting; and
- the length of time from posting of each position to the acceptance of an offer of employment.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Status updates on staffing in the Real Property Valuation Program	SDAT	July 15, 2019 October 15, 2019 January 15, 2020 April 15, 2020



## ***Updates***

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### **1. Report on Eligibility Awareness for the Homestead Property Tax Credit Program**

The 2018 JCR required SDAT to submit a report to the committees explaining how the agency determines which homeowners in the State may be eligible for, but not enrolled in, the Homestead Property Tax Credit Program. SDAT reports that there are nearly 1.5 million properties identified as owner occupied in its recording system, of which as many as 478,245 may be eligible for the program but have not been enrolled.

In the report, SDAT enumerates the ways in which it notifies homeowners about the program, including real estate agents providing application forms at settlement, mailed applications for new homeowners in the State as identified when deeds are filed in local land record offices, and general public outreach. SDAT was also asked to discuss the likely impact of Chapter 297 of 2018 (Homestead Property Tax Credit Program – Eligibility Awareness), which requires the department to identify and notify homeowners who are eligible but not enrolled in the program. In accordance with this requirement, beginning in 2018, an information sheet will be provided in annual reassessment notices sent to property owners.

### **2. Resolution of Repeat Audit Findings Still Pending**

During the 2018 legislative session, the Office of Legislative Audits (OLA) released an audit with six repeat findings (see **Appendix 2**). The standard language requested by the Joint Audit Committee to restrict funds pending the resolution of those findings was included in the fiscal 2019 Budget Bill. As of this writing, SDAT reports that OLA has concluded its follow-up review, but the results of that review have not yet been submitted to the committees.

**Appendix 1**  
**Current and Prior Year Budgets**  
**State Department of Assessments and Taxation**  
**(\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2018</b>					
Legislative Appropriation	\$114,145	\$28,356	\$0	\$0	\$142,501
Deficiency/Withdrawn Appropriation	1,755	-618	0	0	1,137
Cost Containment	-363	0	0	0	-363
Budget Amendments	18	1,155	0	0	1,173
Reversions and Cancellations	-757	-1,551	0	0	-2,307
<b>Actual Expenditures</b>	<b>\$114,798</b>	<b>\$27,342</b>	<b>\$0</b>	<b>\$0</b>	<b>\$142,140</b>
<b>Fiscal 2019</b>					
Legislative Appropriation	\$116,637	\$29,011	\$0	\$0	\$145,648
Budget Amendments	179	183	0	0	362
<b>Working Appropriation</b>	<b>\$116,816</b>	<b>\$29,194</b>	<b>\$0</b>	<b>\$0</b>	<b>\$146,010</b>

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. Numbers may not sum to total due to rounding.

## **Fiscal 2018**

The State Department of Assessments and Taxation (SDAT) closed fiscal 2018 \$361,105 below its legislative appropriation. This decrease is attributable to cancellation of unspent funds and partially offset by increases for tax credit payments and a major information technology (IT) project.

## **General Fund**

Actual general fund expenditures were \$652,765 above the legislative appropriation. The following actions adjusted the legislative appropriation:

- a deficiency appropriation added \$2.1 million for tax credit payments, offset by a provision in the fiscal 2018 Budget Bill that removed \$363,118 to reflect lower health insurance costs;
- \$363,324 was eliminated for software licenses and to increase turnover in the Board of Public Works' September 6, 2017 cost containment action;
- a budget amendment added \$17,712 as part of a statewide realignment of telecommunications costs; and
- a total of \$756,704 in unspent funds were reverted. These funds were reverted largely due to lower than anticipated operating costs in SDAT's assessment offices.

## **Special Funds**

Actual special fund expenditures were \$1.0 million below the legislative appropriation. Adjustments include:

- negative deficiencies removed \$228,434 to reflect the impact on the portion of SDAT costs paid by local governments caused by the September 6, 2017 cost containment action, and a provision in the fiscal 2018 Budget Bill removed \$389,781 to reflect lower health insurance costs;
- a budget amendment added \$1.2 million from the Department of Information Technology for a major IT project; and
- a total of \$1.6 million was canceled across several programs, with the largest amounts in real and business property valuation (\$751,246 and \$402,969, respectively).

## **Fiscal 2019**

To date, one action has altered the fiscal 2019 legislative appropriation. A budget amendment added \$178,613 in general funds and \$183,125 in special funds for a 2% general salary increase effective January 1, 2019.

**Appendix 2**  
**Audit Findings**

Audit Period for Last Audit:	July 30, 2012 – November 11, 2015
Issue Date:	February 2018
Number of Findings:	10
Number of Repeat Findings:	6
% of Repeat Findings:	60%
Rating: (if applicable)	n/a

- Finding 1:** Physical exterior inspections were not performed for all properties as required by State law.
- Finding 2:** Supervisory reviews of property reassessments by the local office supervisors were not always performed and documented as required at the two local offices that were reviewed. Both the local and area supervisors had certified that these reviews had been performed.
- Finding 3:** **The State Department of Assessments and Taxation (SDAT) did not ensure that real property data recorded in the Assessment and Administration Valuation System were complete and accurate and did not document supervisory reviews of assessment appeals and real property exemptions.**
- Finding 4:** SDAT did not use available information to identify entities that failed to register or file a personal property return and did not review and approve exemptions from personal property assessments that were granted by SDAT employees. SDAT also did not pursue late filing penalties in accordance with State regulations and waived or reduced penalty fees without any independent review and approval.
- Finding 5:** **SDAT did not effectively use various automated reports it created to help identify improper credits for review and follow-up.**
- Finding 6:** SDAT had not performed timely and comprehensive verification procedures to help ensure the accuracy of homeowners' tax credits (HTC) awarded and did not verify the propriety of redeemed HTCs and related reimbursement requests from local jurisdictions.
- Finding 7:** Procedures for logging and monitoring critical database and mainframe security events were not sufficient.
- Finding 8:** Intrusion Detection Prevention System protection did not exist for untrusted traffic entering the SDAT network, and numerous SDAT workstations were running an outdated and unsupported operating system.

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**Finding 9:** Controls over the services provided by the Department of Information Technology to SDAT were not sufficient to properly secure the SDAT network.

**Finding 10:** Controls were not in place to ensure that personal property filing fee collections were properly accounted for, secured, and deposited.

\*Bold denotes item repeated in full or part from preceding audit report.

### Appendix 3

## Major Information Technology Projects

### State Department of Assessments and Taxation

### Strategic Enterprise Application Network

Project Status	Implementation.			New/Ongoing Project:		Ongoing.		
Project Description:	The Strategic Enterprise Application Network project (Project SEAN) will allow the State Department of Assessments and Taxation (SDAT) to move away from paper-based processes and archaic mainframe technology. Project SEAN will replace inward and outward facing systems.							
Project Business Goals:	Project SEAN has three goals: (1) elimination of paper-based processes; (2) adopting industry best practices for agency functions; and (3) improving customer service.							
Estimated Total Project Cost:	\$10,042,245			Estimated Planning Project Cost:		\$1,210,000		
Project Start Date:	Fiscal 2018.			Projected Completion Date:		n/a.		
Schedule Status:	Project implementation began in the first quarter of fiscal 2019. Work will continue through fiscal 2019 to develop requirements and scope for tax credit program applications.							
Cost Status:	The estimated cost of the project has increased by \$6.8 million based on a change in scope to replace all of SDAT’s mainframe applications as part of the project.							
Scope Status:	Scope has expanded to include the replacement of all of SDAT’s mainframe computer applications.							
Project Management Oversight Status:	Department of Information Technology oversight established.							
Identifiable Risks:	The most significant risks identified by SDAT include the technical challenges of creating a system that will interface with internal and external systems as needed, ensuring that the agency has sufficient information technology staffing that is appropriately trained to maintain and operate the system, and the willingness of staff to adapt to new business processes.							
Additional Comments:	n/a.							
Fiscal Year Funding (\$ in Thousands)	Prior Years	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	2,646.0	4,905.5	2,490.7	0.0	0.0	0.0	0.0	10,042.2
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$2,646.0	\$4,905.5	\$2,490.7	\$0.0	\$0.0	\$0.0	\$0.0	\$10,042.2

**Appendix 4**  
**Object/Fund Difference Report**  
**State Department of Assessments and Taxation**

<u>Object/Fund</u>	<u>FY 18 Actual</u>	<u>FY 19 Working Appropriation</u>	<u>FY 20 Allowance</u>	<u>FY 19 - FY 20 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	592.30	592.30	592.30	0.00	0%
02 Contractual	7.55	10.50	8.00	-2.50	-23.8%
<b>Total Positions</b>	<b>599.85</b>	<b>602.80</b>	<b>600.30</b>	<b>-2.50</b>	<b>-0.4%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 43,217,249	\$ 45,879,327	\$ 46,026,785	\$ 147,458	0.3%
02 Technical and Spec. Fees	264,125	447,570	296,379	-151,191	-33.8%
03 Communication	1,380,695	1,141,083	1,108,978	-32,105	-2.8%
04 Travel	261,213	172,968	259,752	86,784	50.2%
06 Fuel and Utilities	27,718	26,649	27,000	351	1.3%
07 Motor Vehicles	112,428	80,904	69,203	-11,701	-14.5%
08 Contractual Services	5,303,422	5,656,921	11,265,427	5,608,506	99.1%
09 Supplies and Materials	166,637	177,905	176,700	-1,205	-0.7%
10 Equipment – Replacement	117,326	23,000	148,534	125,534	545.8%
11 Equipment – Additional	8,995	3,500	2,208	-1,292	-36.9%
12 Grants, Subsidies, and Contributions	89,828,863	90,632,786	97,203,672	6,570,886	7.3%
13 Fixed Charges	1,451,328	1,767,098	1,809,025	41,927	2.4%
<b>Total Objects</b>	<b>\$ 142,139,999</b>	<b>\$ 146,009,711</b>	<b>\$ 158,393,663</b>	<b>\$ 12,383,952</b>	<b>8.5%</b>
<b>Funds</b>					
01 General Fund	\$ 114,798,221	\$ 116,815,774	\$ 124,565,312	\$ 7,749,538	6.6%
03 Special Fund	27,341,778	29,193,937	33,828,351	4,634,414	15.9%
<b>Total Funds</b>	<b>\$ 142,139,999</b>	<b>\$ 146,009,711</b>	<b>\$ 158,393,663</b>	<b>\$ 12,383,952</b>	<b>8.5%</b>

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.



**Appendix 5**  
**Fiscal Summary**  
**State Department of Assessments and Taxation**

<u>Program/Unit</u>	<u>FY 18 Actual</u>	<u>FY 19 Wrk Approp</u>	<u>FY 20 Allowance</u>	<u>Change</u>	<u>FY 19 - FY 20 % Change</u>
01 Office of the Director	\$ 2,817,231	\$ 2,991,493	\$ 3,916,835	\$ 925,342	30.9%
02 Real Property Valuation	33,598,857	35,145,741	35,366,198	220,457	0.6%
04 Office of Information Technology	3,640,901	3,903,162	4,397,970	494,808	12.7%
05 Business Property Valuation	3,217,911	3,429,470	3,456,970	27,500	0.8%
06 Tax Credit Payments	89,828,863	90,632,786	97,203,672	6,570,886	7.3%
08 Property Tax Credit Programs	2,536,013	2,756,105	2,747,889	-8,216	-0.3%
09 Major Information Technology Development	1,155,000	1,028,060	4,753,000	3,724,940	362.3%
10 Charter Unit	5,345,223	6,122,894	6,551,129	428,235	7.0%
<b>Total Expenditures</b>	<b>\$ 142,139,999</b>	<b>\$ 146,009,711</b>	<b>\$ 158,393,663</b>	<b>\$ 12,383,952</b>	<b>8.5%</b>
General Fund	\$ 114,798,221	\$ 116,815,774	\$ 124,565,312	\$ 7,749,538	6.6%
Special Fund	27,341,778	29,193,937	33,828,351	4,634,414	15.9%
<b>Total Appropriations</b>	<b>\$ 142,139,999</b>	<b>\$ 146,009,711</b>	<b>\$ 158,393,663</b>	<b>\$ 12,383,952</b>	<b>8.5%</b>

Note: The fiscal 2019 appropriation does not include deficiencies, a one-time \$500 bonus, or general salary increases. The fiscal 2020 allowance does not include general salary increases.