

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1519
Ways and Means

(Delegate McComas, *et al.*)

Property Taxes - Computer-Assisted Mass Appraisal System - Performance
Audit

This bill requires the Office of Legislative Audits (OLA) to conduct a performance audit of the Computer-Assisted Mass Appraisal (CAMA) System as it relates to property tax assessments. OLA must report on the audit to the Governor and the General Assembly by January 1, 2010.

The bill takes effect July 1, 2009 and terminates June 30, 2010.

Fiscal Summary

State Effect: None. The performance audit required by the bill will be absorbed within OLA's existing budgeted resources. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The performance audit must include: (1) an evaluation of the efficiency, effectiveness, and economy of the CAMA System; and (2) a determination of whether the CAMA System results in equitable and fair property tax assessments commensurate with current market values; and accurate and reliable property tax assessments.

Current Law: Performance audits are conducted based on legislative requests or at the discretion of the legislative auditor. The purpose of a performance audit is to evaluate

whether an agency or program is operating in an economic, efficient, and effective manner or to determine whether desired program results have been achieved. This category also includes special reviews, which are less comprehensive than audits.

Background: The State Department of Assessments and Taxation (SDAT) performs an annual Assessment Ratio Study to assess the quality of its real property assessments and reports these findings to the Governor and the General Assembly each year. The study compares sales prices for six months before an assessment date and six months after an assessment date to the assessed value. To the extent that these comparisons show the sales prices are close to the assessments, the conclusion is that SDAT performed its assessment properly.

OLA examined the results of SDAT’s ratio studies in an August 2007 audit report. The audit report disclosed that SDAT did not adequately investigate and disclose reasons for certain variances between the assessed value and sales prices for commercial properties. Residential property assessments were also included in the scope of the audit; however, there were no reportable findings. OLA advises that this issue will likely be included in all future regular audits of SDAT.

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%, the closer the assessment is to the sales price. A ratio over 100% indicates assessments were higher than market values, and a ratio under 100% indicates assessments were lower than market values. The International Association of Assessing Officers (IAAO) range for acceptable performance for ASR is 90% to 110%. As illustrated in **Exhibit 1**, the department’s fiscal 2008 ASR of 96.2% was within the acceptable performance range.

Exhibit 1
Accuracy Measures
State Department of Assessments and Taxation
Fiscal 2006-2010

<u>Measure</u>	<u>Goal</u>	<u>Actual</u> <u>2006</u>	<u>Actual</u> <u>2007</u>	<u>Actual</u> <u>2008</u>	<u>Est.</u> <u>2009</u>	<u>Est.</u> <u>2010</u>
Assessment-to-sales ratio	90%-110%	89%	89.5%	96.2%	90%	90%
Coefficient of dispersion	Less than 15.00	11.25	11.00	11.00	11.00	11.00
Price-related differential	.98-1.03	1.00	1.00	1.01	1.00	1.00

Source: State Department of Assessments and Taxation

SDAT is also performing within its goals 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 the COD, the more closely the ASRs are to the median ASR value; a COD under 15 is considered reasonable. The third measure is the price-related differential (PRD). The PRD measures bias in the ASR. A bias is when the assessments for the assessed properties are higher or lower than they should be, based on the ASR. The ideal PRD is 1, indicating perfectly unbiased assessments. A PRD in excess of 1 indicates underestimated appraisals for high dollar properties, and a PRD less than 1 indicates underestimated appraisals for low dollar properties.

SDAT is currently undertaking a major information technology initiative to upgrade its assessment operations, including the use of the CAMA System. The new system – the Assessment Administration and Valuation System (AAVS) – will consolidate SDAT’s two existing data systems – CAMA and the Real Property Administration Data System (ADS) – into one relational database management system. It will also create a single statewide database that is accessible to all 24 local assessment offices. The contract for the AAVS was approved by the Board of Public Works in December 2006 and was started in February 2007. The project is currently in the development stage and is scheduled to be fully implemented within two years.

State Fiscal Effect: OLA advises that the performance audit required by the bill will cost approximately \$75,000 to conduct (120 audit days x \$620 per person); however, OLA indicates that because this is a one-time performance audit, the costs will be absorbed with OLA’s existing budget.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Property Tax Assessment Appeals Board, Department Legislative Services – Office of Legislative Audits, Department of Legislative Services

Fiscal Note History: First Reader - March 23, 2009
mcp/hlb

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