

E50C
State Department of Assessments and Taxation

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$102,820	\$108,293	\$109,304	\$1,011	0.9%
Deficiencies and Reductions	0	-523	-1,350	-827	
Adjusted General Fund	\$102,820	\$107,770	\$107,954	\$184	0.2%
Special Fund	26,671	28,251	29,745	1,494	5.3%
Deficiencies and Reductions	0	0	-807	-807	
Adjusted Special Fund	\$26,671	\$28,251	\$28,938	\$687	2.4%
Adjusted Grand Total	\$129,491	\$136,021	\$136,892	\$871	0.6%

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 allowance increases by \$870,841, or 0.6%, over the adjusted fiscal 2015 working appropriation. Personnel-related expenditures increase in the allowance by \$1,144,106, net of contingent reductions, including the addition of 8 new regular positions.

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

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Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 Change</u>
Regular Positions	616.00	614.30	622.30	8.00
Contractual FTEs	<u>17.90</u>	<u>17.85</u>	<u>13.85</u>	<u>-4.00</u>
Total Personnel	633.90	632.15	636.15	4.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Position	33.85	5.51%
Positions and Percentage Vacant as of 01/1/15	40.00	6.51%

- The fiscal 2016 allowance includes 8 new regular positions in the Charter Unit. There is a decrease in the allowance of 4 contractual full-time-equivalents, 4 of which are conversions to regular positions within the Charter Unit.¹
- The budgeted turnover in the fiscal 2016 allowance is 5.51%, which translates into the need to keep approximately 34 positions vacant the entire year. As of January 1, 2015, there were 40 positions vacant, for a vacancy rate of 6.51%.

¹ The budget book incorrectly shows a 0.65 full-time equivalent increase in the Office of the Director.

Analysis in Brief

Major Trends

Fiscal 2013 Assessment Values Slip Lower in the Acceptable Assessment-to-sales Ratio: The department's accuracy measures for assessments falls out of the department's range.

Timeliness Measures Continue to Decline within the Business Property Valuation Program: Only 84.4% of annual appraisals of all taxable property from the Business Property Valuation division are completed by December 1.

Issues

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.**

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.**

Recommended Actions

1. Concur with Governor's allowance.

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State Department of Assessments and Taxation

Operating Budget Analysis

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 Revitalization (BRAC) and Incentive Zone Tax Credit Program, and the Urban 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 program reimburses local governments for property tax credits given to businesses which are located in, or expand into, enterprise zones. The department collects public service 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. Fiscal 2013 Assessment Values Slip Lower in the Acceptable Assessment-to-sales Ratio

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 assessment is 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 for acceptable performance for the ASR is 90.0% to

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110.0%. SDAT’s goal is to be within 95.0% to 105.0%. As illustrated in **Exhibit 1**, the department’s fiscal 2013 ASR is 91.3%, a decrease from an ASR of 93.1% in the previous fiscal year. While the ASR is within the range of the national benchmark, this is the third consecutive year that the ASR has fallen beyond the department’s benchmark. Estimates project the ASR to fall and then remain at 90.0% through fiscal 2016. The reason for the lower than usual ASRs has to do with the volatility of the housing market. According to SDAT, lingering foreclosures are affecting the market in certain regions of the State. Supervisors are carefully monitoring their county for reactions in the market because market conditions vary from town to town and county to county. As the market stabilizes and improves, the ASR should return to 95.0%.

Exhibit 1
Accuracy Measures
Fiscal 2009-2016 Est.

<u>Measure</u>	<u>Goal</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Est.</u> <u>2014</u>	<u>Est.</u> <u>2015</u>	<u>Est.</u> <u>2016</u>
Assessment-to-sales Ratio*	95-105%	94.0%	95.0%	90.0%	93.1%	91.3%	90.0%	90.0%	90.0%
Coefficient of Dispersion	=< 15.00	9.42	10.00	10.00	10.27	10.22	10.00	10.00	10.00
Price-related Differential	.98-1.03	1.01	1.00	1.00	1.03	1.01	1.00	1.00	1.00

*Calculated at the end of the calendar year.

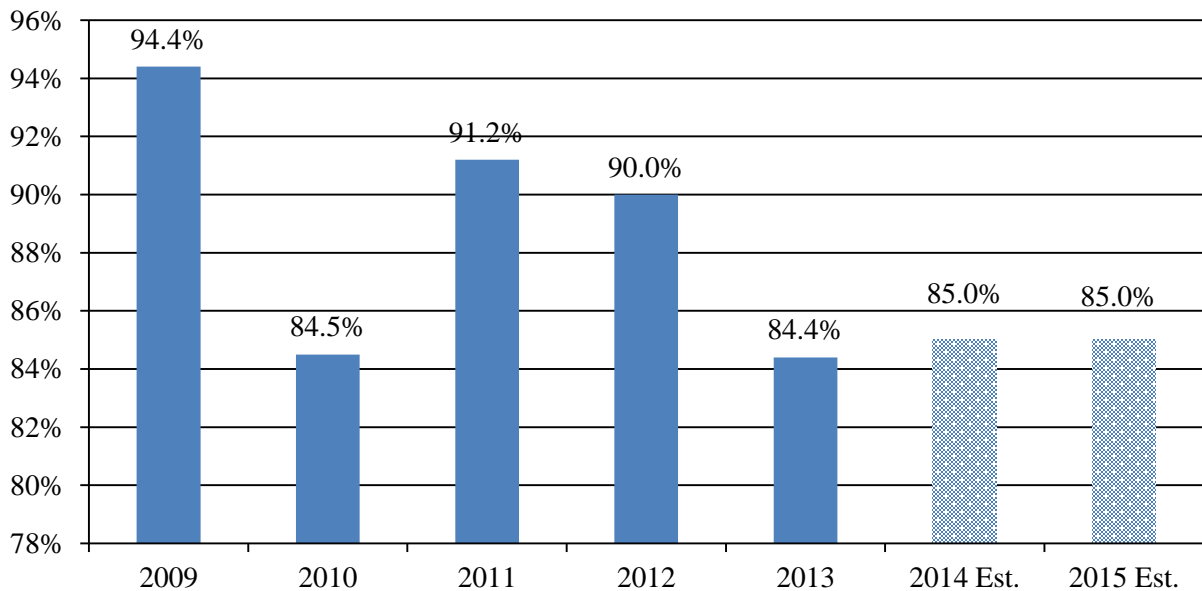
Source: State Department of Assessment and Taxation

The department is 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 15.0 is considered reasonable. The COD for SDAT in fiscal 2013 was 10.22, which was lower than the previous year. COD is projected to fall back down to 10.0 and remain the same through fiscal 2016. 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 1.0, 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. The PRD for SDAT in fiscal 2013 is 1.01, a slight improvement over fiscal 2012, with a projected PRD of 1.0 for each year through fiscal 2016.

2. Timeliness Measures Continue to Decline within the Business Property Valuation Program

The Business Property Valuation Program administers the tax laws governing the assessment of personal property, property tax incentives for qualifying businesses, and utility companies that are subject to property and franchise taxes. The division strives to appraise all taxable property on an annual basis by December 1. **Exhibit 2** shows the percentage of personal property tax returns assessed by December 1 in each fiscal year. In fiscal 2013, the department experienced the lowest percentage of returns assessed on time in the last five years, beating the previous low of 84.5% in fiscal 2010 by 0.1 percentage points. SDAT projects an increase to 85.0% for fiscal 2014 and 2015, which still falls below the levels of timely appraisals achieved in fiscal 2011 and 2012. According to SDAT, the decline in timely processed appraisals is attributable to three factors – assessor workload, lock box problems, and clerical staffing shortages. The increase in returns filed annually, and the reduction in assessor staff has resulted in a significant growth in the average workload from 10,730 returns in fiscal 2007 to an average of 18,692 in fiscal 2013.

Exhibit 2
Business Property Valuation Timeliness Measures
Fiscal 2009-2015 Est.



Source: State Department of Assessments and Taxation

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.

Fiscal 2015 Actions

Cost Containment

On July 2, 2014, the Board of Public Works (BPW) withdrew \$77.1 million in appropriations and abolished 61 positions statewide as fiscal 2015 cost containment. This agency’s share of the reduction was \$100,000 in general funds, with a matching \$100,000 in special funds in savings for delaying contracts to scan records.

On January 7, 2015, BPW implemented a 2% across-the-board reduction in general funds as further fiscal 2015 cost containment. SDAT’s share of the reduction was \$522,820, or approximately 0.5% of general funds, as shown below in **Exhibit 3**.

Exhibit 3
Fiscal 2015 Reconciliation
(\$ in Thousands)

<u>Action</u>	<u>Description</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Legislative Appropriation with Budget Amendments		\$108,393	\$28,351	\$0	\$0	\$136,744
July BPW	Reduced funding for delayed scanning of documents and efficiencies due to Google conversion.	-100	-100	0	0	-200
Working Appropriation		\$108,293	\$28,251	\$0	\$0	\$136,544
January BPW Across the Board	2% across-the-board reduction.	-523	0	0	0	-523
Total Actions Since January 2015		-\$523	\$0	\$0	\$0	-\$523
Adjusted Working Appropriation		\$107,770	\$28,251	\$0	\$0	\$136,021

BPW: Board of Public Works

Source: Department of Legislative Services

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

Proposed Budget

As seen in **Exhibit 4**, the fiscal 2016 allowance for SDAT increases by \$870,841 from the fiscal 2015 working appropriation net of contingent and across-the-board reductions. Personnel expenses increased by a net of \$1,144,106.

Exhibit 4
Proposed Budget
State Department of Assessments and Taxation
(\$ in Thousands)

How Much It Grows:	General <u>Fund</u>	Special <u>Fund</u>	<u>Total</u>
Fiscal 2014 Actual	\$102,820	\$26,671	\$129,491
Fiscal 2015 Working Appropriation	107,770	28,251	136,021
Fiscal 2016 Allowance	<u>107,954</u>	<u>28,938</u>	<u>136,892</u>
Fiscal 2015-2016 Amt. Change	\$184	\$687	\$871
Fiscal 2015-2016 Percent Change	0.2%	2.4%	0.6%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$1,320
Increments and other compensation (prior to cost containment)	716
Employee retirement contribution	610
8 new regular positions in the Charter Unit	336
Other fringe benefits	90
Turnover adjustments.....	48
Workers' compensation premium assessment	40
Accrued leave payout.....	-152
Coverage of Montgomery County employees for health and retirement.....	-255
Section 20: Abolition of prior year 2% general salary increase.....	-748
Section 21: Abolition of employee increments.....	-861

Property Tax Credits

Urban Enterprise Zone Tax Credit Program	1,867
Renters' Tax Credit Program	295

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Where It Goes:

Base Realignment and Closure Revitalization and Incentive Zone Tax Credit Program	188
Homeowners' Property Tax Credit Program	-2,582

Other Changes

Contractual services	182
Data processing equipment	80
Other	11
Lease renewals and office consolidation	-30
Conversion of 4 full-time equivalents.....	-104
Communication expenses (postage).....	-154
Section 19: Difference in 2% across-the-board reduction	-26

Total **\$871**

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

In fiscal 2016, the Administration has implemented several across-the-board reductions. This includes a general 2% reduction, elimination of employee increments, and a revision to the salary plan, which reflects the abolition of the 2% general salary increase provided on January 1, 2015. This agency's share of these reductions is \$1,350,242 in general funds and \$807,239 in special funds.

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

Personnel

Personnel expenditures increase by \$2,752,587, prior to adjustments for cost containment measures. The increase is largely for health insurance premiums for employees and retirees, which increased by \$1,319,754 in the fiscal 2016 allowance. Employee increments accounts for an increase of \$716,248, and retiree contributions increased by \$609,606. There are also 8 new positions for the Charter Unit, with an estimated cost of \$336,411.

The new positions in the Charter Unit will allow the unit to hire 8 long-term contractual positions that have worked in the unit for four years or longer and are performing duties that are permanent in nature. The agency may use 4 of the new 8 positions to staff a new call center for the unit, depending on the direction of the new director. The Charter Unit is funded by special funds derived from expedited fees collected by the unit.

These increases are partially offset by a decrease in accrued leave payout of \$152,016 and other fringe benefits decreasing by \$165,482.

Property Tax Credits

As shown in **Exhibit 5**, the fiscal 2016 allowance for the tax credit programs decreases by \$232,260, with a large decrease in the Homeowners' Tax Credit Program, partially mitigated by increases in the Renters', Urban Enterprise Zone, and BRAC Tax Credit programs.

Exhibit 5 Tax Credit Programs Fiscal 2013-2016

	<u>Actual 2013</u>	<u>Actual 2014</u>	<u>Working Appropriation 2015</u>	<u>Allowance 2016</u>	<u>Change 2015-16</u>
Homeowners' Tax Credit Program	\$62,580,806	\$61,591,730	\$64,500,000	\$61,918,000	-\$2,582,000
Renters' Tax Credit Program	2,042,522	2,359,321	2,380,000	2,675,000	295,000
Urban Enterprise Zone Tax Credit Program	17,046,551	13,691,411	14,433,260	16,300,000	1,866,740
BRAC Revitalization and Incentive Zone Tax Credit Program	227,631	778,524	650,000	838,000	188,000
Total Tax Credit Payments	\$81,897,510	\$78,420,986	\$81,963,260	\$81,731,000	-\$232,260

BRAC: Base Realignment and Closure

Source: State Department of Assessments and Taxation

The Homeowners' Tax Credit Program provides credits against State and local real property taxes for homeowners who qualify based on a sliding scale of property tax liability and income. Similarly, the Renters' Tax Credit Program provides property tax credits to renters who meet certain income and familial requirements. The Renters' Tax Credit Program, which is modeled after the Homeowners' Tax Credit Program, is based on the concept that renters indirectly pay property taxes as a component of their rent and, therefore, should also benefit from the tax credit afforded to qualified homeowners.

Exhibit 6 shows the number of eligible applications and the average credit for Homeowners' and Renters' Tax Credit Programs for fiscal 2013 through 2016. As seen in the exhibit, the number of eligible applications for both programs are projected to increase, despite a decrease from fiscal 2013 to 2014. The average tax credit for homeowners increased in fiscal 2014 and is estimated to increase in fiscal 2015, where the average tax credit for renters decreased in fiscal 2014 and is projected to decrease further in fiscal 2015. There are variations in the number of eligible applicants in a given year because it is dependent on the income of homeowners or renters.

Exhibit 6
Homeowners' and Renters' Tax Credit Programs
Eligible Applications and Average Credit
Fiscal 2013-2016 Est.

	<u>2013 Actual</u>	<u>2014 Actual</u>	<u>2015 Estimate</u>	<u>2016 Estimate</u>
Homeowners' Tax Credit Program				
Eligible Applications	53,196	50,872	52,000	53,800
Average Credit	\$1,177	\$1,218	\$1,240*	\$1,171
Renters' Tax Credit Program				
Eligible Applications	8,249	8,112	8,517	8,942
Average Credit	\$294	\$289	\$281	\$302

*The budget book contains an error and lists the average homeowner's tax credit as \$786.

Source: Maryland State Budget

The Urban Enterprise Zone Tax Credit provides property and income tax credits for businesses that locate or expand within designated areas. SDAT reimburses local governments for 50% of the property tax credit. The credit is based on the increased assessment from a base year either from rising assessments or from increases in value from renovations or capital improvements. The fiscal 2016 allowance for this tax credit program is increasing by \$1,866,740; however, the department notes that projections may need to be adjusted based on actual expenditures due to the expiration of a 10-year tax credit. Additional funds from this program will cover the tax credits for the newly opened Horseshoe Casino in Baltimore City and other projects anticipated in late fiscal 2015.

As **Exhibit 7** shows, the number of participating businesses and the value of tax credits is expected to increase between fiscal 2015 and 2016. The tax credits are awarded over a 10-year period, which explains the decline of the number of participating businesses from fiscal 2014 due to expiring credits. Despite the decrease in number of participants, the value of tax credits is expected to be higher in fiscal 2016 than in the two previous fiscal years.

Exhibit 7
Enterprise Zone Property Tax Credit
Fiscal 2014-2016
(\$ in Thousands)

<u>Enterprise Zone</u>	2014		2015		2016	
	<u>Businesses</u>	<u>State's Share of Credit</u>	<u>Businesses</u>	<u>State's Share of Credit</u>	<u>Businesses</u>	<u>State's Share of Credit</u>
Allegany	26	\$260	26	\$241	24	\$208
Baltimore City	289	8,277	288	8,534	325	10,156
Baltimore	44	663	43	607	42	787
Calvert	7	33	10	29	11	11
Cecil	23	761	23	722	23	541
Dorchester	14	15	13	13	10	18
Garrett	41	138	19	119	15	6
Harford	108	1,541	112	1,777	108	2,643
Montgomery	87	494	82	556	86	385
Prince George's	51	1,006	50	1,033	47	910
St. Mary's	24	42	25	260	11	43
Somerset	3	10	3	8	3	10
Washington	46	486	47	382	47	458
Wicomico	44	152	44	152	39	125
Worcester	3	1	3	0	0	0
Reimbursement to Late Claimants		100				
Focus Area Credit		475				
Totals	810	\$14,453	788	\$14,433	791	\$16,300

Source: State Department of Assessments and Taxation

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

Chapter 338 of 2008, amended by Chapter 728 of 2009, created financial incentives for local subdivisions within approved BRAC zones. The fiscal 2016 allowance of \$838,000 in expected activity is based on economic development in BRAC counties. SDAT anticipates a shortfall in the fiscal 2015 working appropriation because of a large payment processed in January 2015; however, this shortfall will likely be covered by surpluses in other tax credit programs

Issues

1. Resolution of Repeat Audit Findings

Fiscal 2015 budget bill language requested a report from SDAT on the resolution of the findings contained within the fiscal compliance audit from the Office of Legislative Audits (OLA) dated December 2013. The December 16, 2013 SDAT audit report contained four repeat findings, presented as three findings, that were addressed by five recommendations. SDAT provided a report to OLA detailing the corrective actions that it has taken with respect to these repeat audit findings.

- **Finding 5: SDAT had not performed timely and comprehensive verification procedures to help ensure the accuracy of information on certain returns and tax credit applications.**

SDAT completed an audit of the 2011 and 2012 personal property returns, and an audit of the 2013 returns was completed by December 2014. The assistant program manager of the Personal Property Program will report on the progress of the audits being performed on a quarterly basis to the associate director of the department. The department discontinued its 5% Homeowners' and Renters' Tax Credit programs audits due to the small yield and will instead focus on the 20% Differential audits and Internal Revenue Service/Comptroller audits for these programs with audits for calendar 2013 expected to start in July 2015. The department also made significant progress in reducing the backlog of audits for Franchise Tax Returns from calendar 2008 up to 2012. Another corrective action that the department took to resolve this finding includes performing a discovery match to identify nonfilers of subsequent year personal property returns and requesting that county finance officers submit a monthly electronic redemption report of transferred properties to the department, even where there are no properties being transferred that month in a given county.

- **Finding 10: SDAT did not adequately monitor certain contract billings.**

SDAT maintains records to perform verifications of contractor billings, using the schedule provided by the State Treasurer's Office for lock box services. The department is in the process of implementing corrective actions that will provide for an independent verification of the contractors' monthly reported activity for imaging services. The department will reconcile on an ongoing basis a contractors' monthly invoice with internal verification information where appropriate.

- **Finding 11: Sufficient controls were not established over certain collections.**

The department implemented a new procedure and revised its business processes so that all received checks will be entered into the receipts system on the same day, even if the document for which the fee is paid will not be processed until later. The department's lead accountant, who is independent of the cash collection functions, will perform a daily verification of all cash receipts entered into the agency's automated system and the daily deposit. The department also

began a new “no fee” transaction report that will be run on a monthly basis, including a new process to designate an independent review of the “no fee” transaction report.

OLA reviewed the steps taken by SDAT and determined that the agency had taken the necessary corrective actions to implement the recommendations for Finding 10 and Finding 11 and that actions are ongoing to resolve the remaining finding, Finding 5. OLA determined that while some progress was made in resolving Finding 5, verifications of Homeowners’ and Renters’ Tax Credit applications were still not timely. The department attributes these delays to unexpected turnover in a key auditor position but that the 3 new positions that it received in the 2015 fiscal budget should accelerate the timeliness of audits.

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 (DLS) recommends that the committees vote to release the \$100,000 in general funds that were held pending resolution of the repeat audit findings.

2. The State Department of Assessments and Taxation Workgroup

Chapter 464 of 2014 (the Budget Reconciliation and Financing Act) included a provision that required SDAT to convene a workgroup during the 2014 interim. The workgroup included members from the public, State agencies, and local and municipal governments, as well as other interested entities. The workgroup was to examine issues related to the property assessment process for both real and personal property and the tax credit programs, for which SDAT is responsible for calculating property tax credits and exemptions. More specifically, the workgroup was charged with examining the following issues:

- whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;
- SDAT’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;
- the extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and
- 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 SDAT calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy.

The workgroup issued its final report on December 15, 2014. In regard to the abovementioned charges, the workgroup proposes three general recommendations that apply to all of the charges studied. 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, the workgroup recommends 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 workgroup'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.
- 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 workgroup offered more thorough analysis and detailed recommendations for each of the charges, including the following:

- **Physical Inspections:** The workgroup found that physical inspections of property are necessary on some periodic basis, but that SDAT does not have the resources to ensure physical inspections of every property as required by law. However, the workgroup determined that the lack of physical inspections does not impact the accuracy of property assessments. There is currently a pilot project underway that includes remote verifications of property characteristics using oblique aerial photography. The workgroup recommends that at the conclusion of this project, it should consider whether any statutory changes need to be made to the requirement of physical inspections. If the pilot project is successful, the technology should be used in appropriate jurisdictions, and the project should emphasize using existing technology available through other State agencies and local governments by leveraging existing resources and establishing data sharing and use agreements.
- **Timely Pickup of New Property:** The workgroup recognized that outdated technology and staffing shortages have compromised the maintenance of property changes for new construction and incorporating building permits provided by local government. The workgroup concluded that there must be better systems communication between local assessment offices and their corresponding local governments and systems that recognize the differences in technology from jurisdiction to jurisdiction. The workgroup suggests that 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.
- **Tax Credits and Exemptions:** The workgroup supported the recommendations that OLA made in its most recent report regarding the discrepancies in the calculation of credits and exemptions, as well as recommendations made by DLS in the Evaluation of Enterprise Zone

Tax Credit report. Recommendations include electronically scanning and indexing all tax credit applications and attachments to increase the timeliness of audits; performing additional automated audits for the Homestead Tax Credit; utilizing existing systems to regularly produce uniform and complete reports for local governments on the Enterprise Zone Tax Credit Program; and utilizing standard questionnaires and a rating system to reexamine the continued eligibility of charitable, educational, and religious exempt properties. As for third-party audits of tax credits and exemptions, the workgroup determined that the use of third-party audits was not recommended and that the audits performed by OLA were sufficient.

- **Personal Property:** Currently, the annual assessment and certification of personal property is not occurring on a timely basis because of staff reductions. However, a new online personal property reporting system was implemented on January 1, 2015, and is expected to improve the timeliness of certifications. The workgroup recommends that SDAT should expand its new online return filing system over the next two years to allow for all types of business entities to utilize the system and integrate with third-party accounting software.

The department should comment on the recommendations made by the workgroup and the fiscal impact of implementing the recommended changes to business processes.

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

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

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2014					
Legislative					
Appropriation	\$105,327	\$26,565	\$0	\$0	\$131,892
Deficiency					
Appropriation	-1,050	-105	0	0	-1,155
Budget					
Amendments	1,054	768	0	0	1,822
Reversions and					
Cancellations	-2,511	-557	0	0	-3,068
Actual					
Expenditures	\$102,820	\$26,671	\$0	\$0	\$129,491
Fiscal 2015					
Legislative					
Appropriation	\$108,204	\$28,022	\$0	\$0	\$136,226
Cost					
Containment	-100	-100	0	0	-200
Budget					
Amendments	189	329	0	0	518
Working					
Appropriation	\$108,293	\$28,251	\$0	\$0	\$136,544

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

SDAT finished fiscal 2014 \$2,401,253 below its legislative appropriation. Retirement contributions were reduced by \$581,026, and health care contributions were reduced by \$682,074 through deficiency appropriations. Amendments for the cost-of-living adjustment (COLA) and salary increment increased the appropriation by \$691,761.

General Funds

Actual expenditures were \$2,506,843 below the legislative appropriation, mostly due to \$2,510,867 in reverted funds. Budget amendments and deficiency appropriations included:

- Deficiency appropriations subtracted a net \$1,050,171:
 - \$291,915 decrease for statewide retirement contributions;
 - \$504,047 decrease for statewide health savings;
 - \$303,553 decrease to swap special funds for general funds to implement cost containment reductions in the Office of the Director from the Charter Unit;
 - \$53,535 increase to cover shortfalls in annual leave payout, Social Security, employee retirement, unemployment, and technical and special fees;
 - \$66,465 increase to supplement the fiscal 2014 appropriation to provide funds to cover shortfalls in postage in the Business Property Valuation Unit; and
 - \$70,656 decrease for restricted contribution to the Statewide Personnel System.
- Budget amendments added \$1,054,195:
 - \$344,035 increase for the COLA and salary increments;
 - \$419,921 increase for the annual salary review (ASR) for Real Property Valuation;
 - \$15,720 increase for the ASR for the Office of the Director; and
 - \$274,519 increase to fund the Annapolis Data Center that was allocated to those programs that utilize the services.
- \$2,510,867 in general funds were reverted, attributable mainly to various tax credits and salary savings due to vacant positions.

Special Funds

Actual expenditures were \$105,590 above the legislative appropriation.

There was \$105,050 in deficiency appropriations, including \$289,111 for statewide retirement contributions, \$178,027 in statewide health savings, \$303,553 to swap special funds for general funds to implement cost containment reductions in the Office of the Director from the Charter Unit, and \$58,535 to supplement the fiscal 2014 appropriation to provide funds to cover shortfalls in postage in the Business Property Valuation Unit. A total of \$557,007 in special funds were cancelled, with most of these funds rolling over into next year's billing cycle to local county governments as reductions.

Budget amendments added \$662,597, which included:

- \$347,726 increase for COLAs and increment payments; and
- \$419,921 increase as a result of the ASR review;

Spending was partially offset with \$557,007 in cancelled funds.

Fiscal 2015

On July 2, 2014, BPW withdrew \$77.1 million in appropriations and abolished 61 positions statewide as fiscal 2015 cost containment. SDAT's share of the reduction was \$200,000 – \$100,000 in general funds to reduce funding for contracts by delaying scanning of certain documents and achieving efficiencies due to Google conversion and a matching \$100,000 in special funds.

To date, \$518,183 has been added through budget amendments to the legislative appropriation for fiscal 2015. The fiscal 2015 COLA accounts for an increase of \$189,132 in general funds and \$185,327 in special funds. Another budget amendment added \$143,724 in special funds to offset the salaries and wages in the Office of the Director due to a decrease in general funds as part of the fiscal 2015 cost containment.

Object/Fund Difference Report
State Department of Assessments and Taxation

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	616.00	614.30	622.30	8.00	1.3%
02 Contractual	17.90	17.85	14.50	-3.35	-18.8%
Total Positions	633.90	632.15	636.80	4.65	0.7%
Objects					
01 Salaries and Wages	\$ 41,278,399	\$ 45,555,106	\$ 48,307,693	\$ 2,752,587	6.0%
02 Technical and Spec. Fees	393,607	396,625	292,589	-104,036	-26.2%
03 Communication	1,519,004	1,415,530	1,261,297	-154,233	-10.9%
04 Travel	305,985	183,750	188,750	5,000	2.7%
06 Fuel and Utilities	20,286	18,500	18,500	0	0%
07 Motor Vehicles	69,807	58,290	62,090	3,800	6.5%
08 Contractual Services	5,160,258	4,883,011	5,065,458	182,447	3.7%
09 Supplies and Materials	232,730	157,180	147,559	-9,621	-6.1%
10 Equipment – Replacement	349,560	171,667	265,667	94,000	54.8%
11 Equipment – Additional	17,373	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	78,421,108	81,963,260	81,731,000	-232,260	-0.3%
13 Fixed Charges	1,722,629	1,741,117	1,708,935	-32,182	-1.8%
Total Objects	\$ 129,490,746	\$ 136,544,036	\$ 139,049,538	\$ 2,505,502	1.8%
Funds					
01 General Fund	\$ 102,819,972	\$ 108,292,984	\$ 109,304,197	\$ 1,011,213	0.9%
03 Special Fund	26,670,774	28,251,052	29,745,341	1,494,289	5.3%
Total Funds	\$ 129,490,746	\$ 136,544,036	\$ 139,049,538	\$ 2,505,502	1.8%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
State Department of Assessments and Taxation

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
01 Office of the Director	\$ 2,565,364	\$ 2,744,737	\$ 3,039,419	\$ 294,682	10.7%
02 Real Property Valuation	32,088,926	34,750,262	36,269,140	1,518,878	4.4%
04 Office of Information Technology	4,698,253	5,177,524	5,438,453	260,929	5.0%
05 Business Property Valuation	3,475,491	3,437,374	3,689,248	251,874	7.3%
06 Tax Credit Payments	78,420,986	81,963,260	81,731,000	-232,260	-0.3%
08 Property Tax Credit Programs	2,726,561	3,091,957	3,113,290	21,333	0.7%
10 Charter Unit	5,515,165	5,378,922	5,768,988	390,066	7.3%
Total Expenditures	\$ 129,490,746	\$ 136,544,036	\$ 139,049,538	\$ 2,505,502	1.8%
General Fund	\$ 102,819,972	\$ 108,292,984	\$ 109,304,197	\$ 1,011,213	0.9%
Special Fund	26,670,774	28,251,052	29,745,341	1,494,289	5.3%
Total Appropriations	\$ 129,490,746	\$ 136,544,036	\$ 139,049,538	\$ 2,505,502	1.8%

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.